

★ MARKET IN TEST PHASE ★

# *The* MAGAZINE *of* WALL STREET

and BUSINESS ANALYST

APRIL 9, 1960

85 CENTS

★  
**FOR A CHANGE — To Update  
WORLD MONETARY SYSTEMS?**

By JACK BAME

★  
**MOST REVEALING RECORD OF  
"INSIDER" TRANSACTIONS**

By ROBERT B. SHAW

★  
**IT — PREMIER INVESTMENT  
IT'S GOT EVERYTHING!**

By KENNETH HOLLISTER

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*Special Studies of  
Major Industries.....*

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**balanced Appraisal of the  
GLOBAL and DOMESTIC**

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**ong Demand Continues in  
CHEMICAL INDUSTRY**

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**What Growth For  
DRUG INDUSTRY?**

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**Like the Production of a New Car...**

**there's more to Cities Service  
than meets the eye!**



Designers and engineers work years ahead of actual production. Designers work directly with decorators and metal craftsmen to select new materials which can aid them in working out advanced designs.

More than seven million new cars will roll off the production lines this year. Behind them is a complex network of designers, researchers, test drivers, and testing laboratories. Most of us fail to realize the enormous combination of people and tasks it takes to produce the "pride of the family."

Likewise, motorists pulling into a Cities Service station in their new, high-powered cars don't realize the vast number of people and jobs it takes to produce gasoline. For instance, Cities Service has a full staff of research and technical experts, searches four continents for oil, maintains giant refineries, research labs, uses a pipe-line system that can circle the globe and a fleet of super tankers, too!

And Cities Service has spent over a billion dollars in product development.

Only in this way can America have what it needs for progress—more jobs and more and better oil products.



# THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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Vol. 106 No. 2

April 9, 1960

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*Cover Photo: Night view of the blossoming cherry trees  
silhouetting the Washington Monument in the nation's capital.  
Photos, Page 72—Courtesy of Amer. Tel. & Tel. Co.*

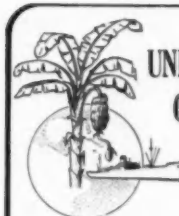
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UNITED FRUIT  
COMPANY

## Dividend No. 241

A dividend of twenty-five cents<sup>1</sup> per share on the capital stock of this Company has been declared payable May 2, 1960, to shareholders of record April 8, 1960.

EDWARD D. TOLAND, Jr.  
Secretary and Treasurer  
Boston, Mass., March 28, 1960

# CELOTEX

## DIVIDEND NOTICE

The Celotex Corporation  
has declared dividends of

50c per common share  
25c per preferred share

for the quarter ending April  
30, 1960

Payable April 30, 1960  
to stockholders of record  
April 7, 1960

C. W. JOHNS  
Treasurer

# Pacific Gas and Electric Company

## DIVIDEND NOTICE COMMON STOCK DIVIDEND NO. 177

The Board of Directors on March 16, 1960, declared a cash dividend for the first quarter of the year of 65 cents per share upon the Company's common capital stock. This dividend will be paid by check on April 15, 1960, to common stockholders of record at the close of business on March 25, 1960.

K. C. CHRISTENSEN,  
Vice President and Treasurer  
San Francisco, Calif.

P·G·and·E·

# Profit: the Key to *Telephone Progress* *and Low Cost*

Maybe it's about time somebody stood up and said a good word about profits.

For the opportunity to earn a satisfactory profit is part of the very spirit of a free America. It is one of the basic things that have made this a great country.

Today, more than ever, the progress and prosperity of communities, states and nation are dependent on the number and the prosperity of their companies.

So the profit motive is important. Actually it is one of the great driving forces that stimulate inventions, new products, new services and new plants. And more and better jobs!

That is just as true of the telephone business as any other . . . and of added importance because of the vital nature of the service.

It is a satisfactory profit—and the hope of its continuance—that gives

us the money and the incentive to go ahead on a long-pull basis instead of in a more expensive short-term manner.

It is profit that enables us to originate and take advantage of all the technological advances that improve your service and hold down the cost of providing it.

We can act instead of hesitating to act. We can go forward instead of standing still. We can move from one achievement to another in the best interest of everybody.

The evidence is overwhelming that companies that show excellent profit records do the best job for their customers and employees and, as corporate citizens, contribute the most to the community.

The day-by-day benefits for telephone users are better service at a lower price than would be possible in any other way.



**WINGS FOR WORDS.** It's so easy to take the telephone for granted! But what in the world would you ever do without it? All the many tasks of the day would be harder. You'd miss its priceless help and comfort in emergencies. So much would go out of your life if you couldn't reach out your hand and talk to friends and those you love.

**BELL TELEPHONE SYSTEM**



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# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



## The Trend of Events

**"NEED FOR THINKING AHEAD AND INNOVATING IN A RAPIDLY CHANGING WORLD"** . . . When I read this phrase in Mr. Bame's article, "Time for a Change" (appearing in this issue), I felt it could not be improved upon—it tells the story so aptly.

The social and economic revolution that is seething in every corner of the world today is producing problems that call for deep thinking and the most careful kind of consideration if we are to act wisely, for there is just as much obsolescence in ideas today as there is in methods—machinery—products—in our way of life.

As a worker and observer of human events on a broad-gauge level, I have become aware of the imperfections in the systems men have set up to handle their affairs, both economically and politically. Because of the complicated structure of world trade and finance, money, though only a medium of exchange, has taken on such enormous importance that the future of peoples and nations will depend on the efficiency with which their finances are handled.

History is replete with currencies that, due to poor management have lost their worth as a standard of value, or as a store-house for capital. And with this destruction of

wealth the savings of the people have gone down the drain even in our lifetime in the highly developed economies of Germany and France, as well as other European countries, due in a large measure to the fact that the monetary systems as set up during the past century continue to evaluate the assets of a country below their true value, ignoring the growth that has taken place. And it was this that made it possible for "hard" foreign currencies to buy at bankrupt levels, the most valuable properties in France and Germany.

And because it "can happen here"—in our own country—and bring devastating loss to all of us, rich or poor, affecting our business—our investments—insurance—and everything—we believe the time has come to consider making changes in our monetary system in accordance with the requirements for a rapid turnover of money, and to meet

world needs in this new age of speed in communication and transportation that makes the world one.

We therefore suggest a careful reading of our leading story in this issue, "Time for a Change to Up-Date U.S.-World Monetary Systems?", which deals with the whole monetary situation from pre-1914 to date, and contains the

*We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.*

BUSINESS, FINANCIAL and INVESTMENT COUNSELLORS: 1907 — "Our 53rd Year of Service" — 1960

essence of four important new proposals that have been suggested, now under discussion in banking circles in the various monetary centers abroad.

There is nothing radical in the thought of changing the monetary system. This has taken place throughout the ages, from the time men transacted their affairs and paid their bills in bullion—down to the present day.

That something must be done to develop a system that will realistically reflect the vast wealth of our nation at this time is clearly evident.

**FOR BANK STOCK INVESTORS . . .** New York banks "get a break" under new law—allowing branches in suburbs.

Hemming in banks and banking by restrictive legislation has long been a custom among the various state legislatures of the United States. Thus when an important state such as New York amends its banking code to ease some of the branching restrictions of the old law it may be indicative of a change in public attitude toward banks. Because banking has become increasingly competitive and because New York State is a leader in state regulation of all types, it is possible that the new banking law will be a factor in influencing other state legislatures to remove at least some of the tight restrictions hampering the growth and development of their banking institutions.

Fear of possible monopoly of moneyed interests has long characterized American banking history. This harks back to the historic struggle of Andrew Jackson with the Bank of the United States. Andrew Jackson won his feud with Nicholas Biddle, with the result that we now have 14,000 banking units in this country (down from 30,000 in the 1920's). This is in sharp contrast with the British and Canadian banking systems, in each of which five or six very large banks, with hundreds of branches all over those countries predominate. *Within the borders of the United States there are many and varied state banking laws permitting statewide branch banking in some states (such as California), limited branch banking in others (such as New York) and no branches in about a quarter of the states (notably Illinois and Texas).*

#### Advent of Suburbia

Rapid growth of suburban areas at the expense of the cities has been an outstanding characteristic of America's economic history, particularly in the post-war years. Thus we have seen new shopping centers springing up all over such counties as Nassau on Long Island and Westchester, immediately north of New York City. Most of the major New York department stores have followed their customers to the suburbs, but New York City banks have heretofore been brought up short at the city line and have not been permitted to have branches outside the city. This has seemed to be patently unfair to the banks, and has stymied them in their attempts at increasing their deposits just at a time when national trends toward decentralization have tended to pull deposits out of New York City and into other economic centers throughout the country. *Thus while New York City central reserve city banks in 1940 had 30% of all of the*

*commercial bank deposits in the country, today the New York City banks have about 17% of the total.*

#### What New Law Accomplishes

New York's new banking law represents the first major change in this state's basic banking code since 1914. Its passage has been sought for some ten years or more but the Bill has heretofore been defeated by local banking groups in the suburbs plus political opposition. In general, the statute provides for state-wide operation of bank holding companies under state as well as existing Federal regulation. It permits New York City banks to apply for branches in the Nassau and Westchester County suburbs and gives suburban banks reciprocal rights to branch in New York City. Additional branch privileges are granted under the law to savings and loan associations.

The additional branching privileges given New York City banks under the new law still leave them a long way from the freedom of the banks in the states with state-wide branching laws. However, the removal of at least some of the restrictions which have been barriers to the expansion of New York City banks for so many years is constructive. Actually, the competition of the commercial banks among themselves and with other banking institutions, including savings banks and savings and loan associations, is such that there is little to be feared today from a money monopoly. Thus, the removal of barriers stimulates rather than reduces competition. Along these lines Mr. Allan Sproul, former president of the Federal Reserve Bank of New York in 1956, raised a question "as to what extent the small independent bank is bulwark of the American system of individual and competitive enterprise, and to what extent our independent banking system may shield a considerable number of local monopolies."

#### The Modern Bank

New York State is making a constructive move in giving its banks more room in which to grow and in which to compete freely in serving the banking needs of the businesses of the state. Banking has become a department store type of operation involving many varied types of financial services under a single roof. Some of these services include instalment loans, no-minimum balance checking accounts, savings department, safe deposit service, registered checks, travelers checks, varied personal trust services and corporate trust activities. Banking is also moving rapidly in the direction of automation. It will not be long before uniform checks with magnetic ink identification characters will be run through electronic computing and recording machines, providing substantial long-term savings in handling costs. It is apparent that just as the corner grocery store has given way to the more efficient and more economical supermarket so the very small bank is, in many areas, being succeeded by the larger and more efficient department store type of bank. To oppose this on sentimental grounds is akin to favoring anti-chain store legislation or any move in the direction of increased competition.

It is interesting to note the difference between banking facilities in (Please turn to page 122)

# As I See It!

By Charles Benedict

## BRITAIN REVERTS TO HER HISTORIC ROLE

**T**O hold Europe in thrall has been the cornerstone of Britain's foreign policy, which has erupted into war on the Continent again and again.

That she should, in partnership with Russia, at this crucial stage in world affairs, attempt to weaken Western Europe, in the face of the danger from international communism, is very difficult to understand. The fact that Britain was flirting with Russia has been evident ever since Prime Minister Macmillan went to Moscow. And these talks were followed up by visits from various prominent political and industrial leaders, including Viscount Montgomery, in line with Britain's policy to use every avenue to hammer away at her goal.

So eager was Britain to have her way that President Eisenhower too was hit with a barrage of memoirs by wartime figures belittling his stature, while the press was beating the propaganda drums to urge that Macmillan step into Eisenhower's shoes as leader of the Western coalition.

That something was in the wind was apparent from the violent attacks on Germany and Adenauer personally.

And the multitudinous activities and pressures, above the surface and below, were designed to horn in on the Common Market Nations, while refusing to grant them equal privileges in Commonwealth and Sterling Bloc trade.

Now, for the third time since the turn of the century, Germany has cut into Britain's foreign trade on manufactured goods—and the fat is in the fire. This time, Britain is maneuvering to stop this trade expansion, and to this end is collaborating with Khrushchev, who is ready to play any game that will prevent Western Europe from uniting into a strong new bloc, an outcome that is certain to emerge from the 6-Nation Common Market economic agreement. For his part, Khrushchev hopes that the support of Britain will help him to settle the status of Berlin along the lines he has laid down; and he is ready and more than willing to collaborate.

Britain's historic role on the Continent has been a divisive one, designed to prevent trade and political alliances that would challenge her position. This time she is throwing caution to the winds in the

face of great danger to the world from a nuclear war. In turning to Moscow, she is following the same tactics she used in the 19th century when she allied herself with Russia to stop Napoleon.

Now Britain is using the rapid rise of Germany as an excuse to cripple her, on the ground that England's well-being is threatened by the resurgence of West Germany. This hostility coincides with Khrushchev's plan to undermine West Germany and create a Communist German State. Thus both

Khrushchev and Macmillan stand on common ground and against the policy of the United States, which approves the union of the Western European nations as a means for establishing mutually advantageous interests between them—so as to solidify the Continent in a way that will prevent future wars, an evil from which Europe has suffered for so many centuries.

This puts the United States "on the spot"—and in a very delicate position to say the least—for we are enthusiastically supporting the Common Market. So that now the question is whether the United States can stay out of the

power struggle, or whether we have decided to cast our lot with Adenauer-de Gaulle's Europe instead of with Britain and, involuntarily with the Soviet Union. What a mess! For to join Britain and the Soviet Union would be like throwing up the sponge in the titanic struggle against world communism in which we are now engaged.

A leopard never changes its spots, and we fear that this also applies to the British lion, who has again and again swished its tail in the face of its former friends and allies. Our experience after World War I and now after World War II should be a lesson to us. A quotation from Rudyard Kipling, England's Poet Laureate, referring to the United States after World War I, seems particularly appropriate now, and should serve to remind us of what we can expect . . .

"At the eleventh hour he came—but his wages were the same."

Rudyard Kipling



Macmillan with Khrushchev in Moscow

# Market In Test Phase

Probably the best that can be expected of the market at present is a selective, trading-range phase as investors await more light on Spring business developments and money-rate tendencies. A test of the March lows is possible. It is sound policy to lean to the conservative side at this juncture.

By A. T. MILLER

**T**HE market's recent less than three-week recovery from an over-sold position ran out of steam before the end of March. The movement was moderately downward last week, but without much momentum; and it left the averages a fairly comfortable distance above the March 8 lows.

The surprise news of the week was announcement late Thursday of long-term Treasury financing — possibly totalling around \$500 million in subscrip-

tions and limited to not over \$1.5 billion — at the 4¼% maximum rate permitted by present law. The normal overnight adjustment to the news in the Government bond market was quickly completed. Other sections were little affected. The stock market paid little attention.

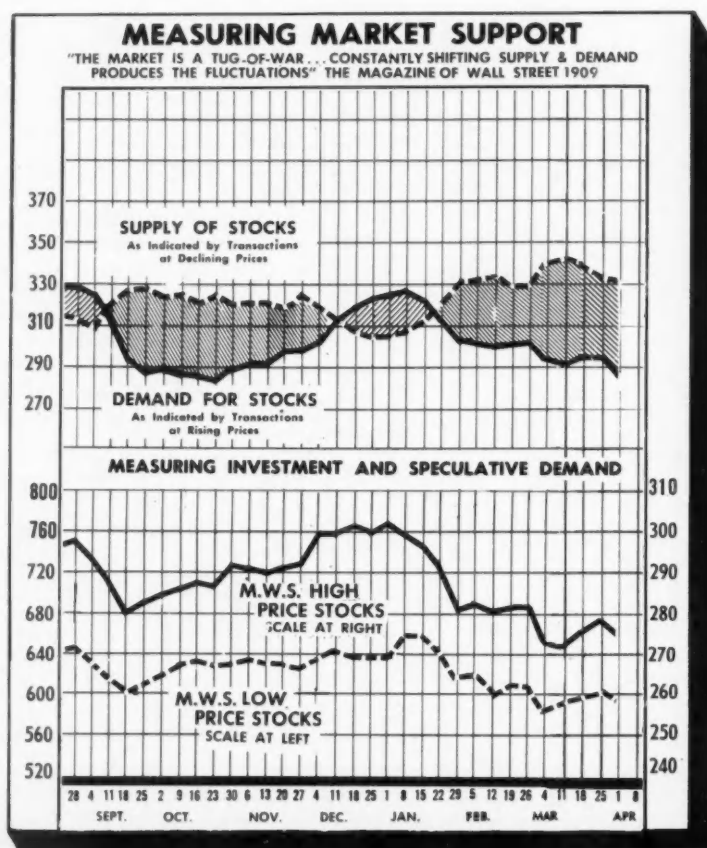
The Treasury's indicated intention of offering long-term bonds from time to time, if and as permitted by market conditions, puts a ceiling on bond prices at levels pretty much in line with those now prevailing. At least that is the interim outlook. It is not bullish for stocks since the recently narrowed spread of Government bond yields over stock yields has now widened a bit, but it is not too important.

The basic outlook for money rates hinges on business activity as translated into loan demand, and on Federal Reserve credit policy. Via open-market operations, the "Fed" has let up a little in pressing the brake, without any real policy change. Like the fence sitters in the stock market, it is waiting to see if Spring brings business betterment.

## The Market Position

At the best recent levels (March 24), the industrial stock average had made up close to 30% of the January 5-March 8 sell-off; rails over 40% of that phase and 28% of the total fall from their July, 1959, high. That is within normal limits of technical rebounds after sizable sell-offs, and hence it has left the underlying trend and medium-term potentials in question.

With roughly a third of the rally given up as of last week's close, the market lacks a strong technical springboard. A material rise to new recovery levels would seem to require some fresh impulse or some firming in investment-speculative confidence. Even the limited improvement seen in the latter has been on a tentative basis.





Revival of hopes of a stronger base requires (1) demonstration, by adequate test, of convincing support for the industrial and rail averages around or above the March 8 lows; and (2) at least a sizable degree of Spring business betterment, following weeks of mostly disappointing reports and the near-collapse of the extreme optimism prevailing at the year's start.

#### Business Test At Hand

It was heretofore possible to attribute the lag in store sales, demand for automobiles, housing volume and various outdoor activities at least partially to uncommonly bad February-March weather in wide areas, with the late Easter also a trade factor. But now the test is at hand. April should show whether there is adequate vitality left in an economy which some weeks ago had the maximum stimulus from catching-up activity in steel, automobiles and other inventory expansion.

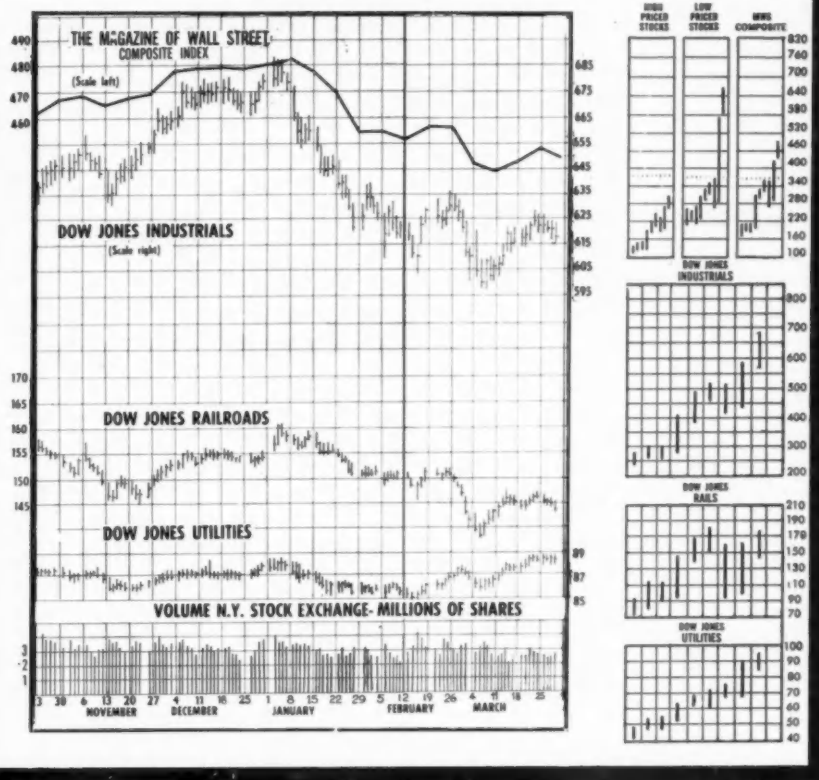
If there is no significant early-Spring lift, hopes for improvement in May or June or later would become more tenuous; the theory of a fairly high "plateau" through the year would become increasingly suspect; and there would be more concern about possible recession somewhat earlier than the "some-time-in-1961" timing heretofore envisaged in various guess-forecasts. It should become clearer before long whether we have the makings of more market recovery or of more retreat than has yet been seen.

Speculative excitement has not vanished. It is seen in recent excessive gyrations in some stocks, mostly in the electronic-science issues and other special situations. The more general speculative fever of last summer and of the year-end period has largely subsided. Aside from the partial shift of money to bonds and short-term Treasury obligations, many investors show a currently increased preference for defensive stocks mostly in such groups as utilities, dairy products, food brands, food stores, small-loan stocks, soft drinks and tobaccos.

#### Utilities Show Strength

At the best level early last week, the Dow utility average was at another new 1960 high, remaining considerably under its March, 1959 top, partly because of the inclusion of over a one-fourth content of natural gas stocks. Broader indexes of electric utilities about equalled the 1959 postwar peak.

## TREND INDICATORS



Besides performing better than the market so far in 1960, utilities have served investors well on balance on a long-term basis, due to gradual, fairly steady growth of earnings and dividends. It may surprise some to note that the present net rise of the Dow industrial average over the July, 1957, top is about 19%, that for the Dow utility average 23%. Selected utilities rate a place in most portfolios.

#### Burdens On Industrial List

If the business outlook is OK, it has to be OK for the consumer durable-goods and capital-goods industries. But the consensus reflected in the market is not cheerful. Among the lagging stock groups — besides oils, aircrafts and airlines — are most automotive issues, appliances, building shares, copers, farm equipments, machinery, metal fabricating and steels. These have much weight in all indexes of industrial stock prices. It may thus need a surprising, rather than modest, degree of Spring business improvement to turn this market upward again.

The so-so February-March economic data now at hand are largely of academic interest, since the market is concerned with current and nearby clues to what lies ahead in business. At this point we recommend maintenance of long-term investment positions in sound stocks acquired at advantageous levels, along with substantial liquid reserves. Defer adding to risks in new buying. — Monday, April 4.



## TIME FOR A CHANGE To Up-Date U.S.—WORLD MONETARY SYSTEMS?

—With proposals by 5 leading experts

By JACK BAME

- Why development pressures and new adjustment problems under gradual return to currency convertibility call for more scope
- Evolvment of present system in 20th Century — comparing Pre-1914 gold standard — 1930's and Tripartite Agreement — Bretton Woods — IMF — World Bank, etc. — 1956 Suez — and 1957 Sterling Crises
- Role of Gold Today — Positive and negative aspects
- Review of important new proposals . . . Radcliffe Report — Triffin Plan — Day and Bernstein Proposals — Regional Developments
- Need for thinking ahead and innovating in a rapidly changing world

N this age of explorations into outer space, rather fantastic scientific discoveries and the breaking down of barrier after barrier in practically all branches of human endeavor, we have come to accept such innovations and startling changes as "normal procedure." However, some sort of wall of caution seems to have been built up around certain "basic and sound" concepts in the realm of our international payments mechanism, with "do not touch" markers in abundant evidence. Nevertheless,

several new statements questioning the adequacy of the present system and proposals for revised alternatives have recently chipped away at the status-quo armor of "fundamental doctrine." Let it be here stated that this does not imply that the existing world monetary framework is wholly outdated or useless. Rather, that it is a healthy concept to constructively criticize, examine, revise and perhaps rebuild institutional arrangements which have, at times, served us well but perhaps are not or will not



long be of sufficient breadth and dynamic strength to cope with the coming financial and commercial problems of our rapidly changing globe.

#### Why Concern Ourselves Now?

A combination of factors have accumulated which really make it almost a necessity to at least carefully re-examine our present global payments standard:

►(1) The resurgence of Western Europe and the return towards currency convertibility of that and other areas have, while effectively demonstrating the value of U. S. postwar aid, posed new problems for America's balance of payments. Our relative payments position has worsened considerably, for a number of reasons, and potential threats to our own, and the entire Western position, are represented by the possibility of sudden and unfavorable short-term currency movements against key currencies. In the case of the Dollar, this is now still more a possibility than probability, and therefore this is an opportune time to study institutional arrangements and their effectiveness.

►(2) A more widespread use of currencies other than the Dollar for international payments, and as a basis for reserves, gives the opportunity to consider an acceptable framework for many nations.

►(3) The emergence of newly independent states, especially in underdeveloped Africa, which will require growing financial aid from the West, for social, economic and political reasons. This can be most constructively and smoothly provided on a multilateral basis.

►(4) and (5) A two-pronged reason. *First*, the cold war situation, if it continues without an easing of tensions, makes the most efficient coordination of the Western monetary network imperative for obvious reasons. *Second*, if this should not be the case, and a more conciliatory co-existence is reached, the lessening of the financial burden of defense expenditures will allow for more aid and trade among advanced and backward nations, which will require an institutional arrangement adapted to new and expanded needs and liquidity.

#### Evolution of Our Present System

From 1880 to 1914, the gold standard, under which exchange rates of the countries adhering to it fluctuated within narrow limits or "gold points," seemed to work remarkably well. This was helped along by the rather free movement of international investment capital, a markedly rising trend of global trade and production, increasing gold output and a number of other factors peculiar to the period. Even then, however, there was a degree of cooperation between Central Banks during periods of temporary stress. Central Banks borrowed from their counterparts in other countries, either directly (the Bank of England borrowed 75 million francs in gold from the Banque de France in an 1890 crisis) or indirectly (the Banque de France discounted British bills periodically from 1906-1910, making gold available to London).

**The Tripartite Agreement** — *The Period after World War I and into the 1920's and '30's*, resulted in a chaotic situation as a result of *not* coordinating policies or forming a suitable workable international monetary system. Britain returned to an overvalued Pound, France to an undervalued Franc, and Italy to an overvalued Lira. All nations were back on the proverbial but insecure gold standard, since each country established its own gold currency relationship without regard to the other. Although many aspects of the situation of Great Britain are not comparable to that of the U. S. at present, it is interesting to note that London became a short-term debtor with frozen long-term creditor claims in Central Europe. An eventual run on the Pound resulted from a lack of liquidity. At the same time, countries with insufficient gold supplies instituted another arrangement — *the gold exchange standard*. Briefly, this called for a smaller country to adopt a monetary unit defined as a definite quantity and fineness of gold. This country established credit-balances with banks in a foreign country which was on the gold coin or bullion standard.

If the citizen of the smaller nation desired gold, he would obtain a bank draft of the currency of the country on the gold bullion or coin standard. This system led to a pyramiding of credit as fractional gold reserves were serving as a basis for more currency and created a resultant inflationary danger, eventually breaking down because of lack

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## International Monetary Fund

(End-of-month figures. In millions of dollars)

Country	Quota Total	Paid in gold	Cumulative net drawings on the Fund	
			1959 Jan.	1960 Jan.
Argentina	280	70	88	148
Bolivia	23	6	9	11
Brazil	150	38	113	92
Burma	15	1	12	8
Chile	75	15	42	42
Colombia	75	19	30	15
Cuba	50	13	25	25
Dominican Rep.	15	4		2
El Salvador	11	3		6
France	788	174	394	181
Haiti	11	3	4	5
Honduras	8	2		4
India	600	78	200	200
Indonesia	165	29	55	46
Iran	70	18	17	5
Paraguay	9	2	6	5
Philippines	50	13	15	9
Spain	100	10		50
Sudan	15	2	5	6
Turkey	86	22	39	36
United Arab Republic—Egypt	60	10	30	27
United Kingdom	1,950	399	545	310
United States	4,125	1,031	-1,928*	-1,607*
Jugoslavia	66	9	23	23

\*—Represents sales of U. S. dollars by the Fund to member countries for local currencies, less repurchases of such currencies with dollars.

of confidence. Even then, the Bank for International Settlements and other Central Banks tried to provide the necessary liquidity in the face of massive runs on currencies. But all of Europe eventually went off gold. The U. S., Britain and France, in 1936, formed the *Tripartite Agreement* and created an exchange equalization account. Under this plan, if the French franc were in an oversupply situation in N. Y. and tended to drop in value, the U. S. Treasury would buy francs and support the rate, exchanging gold for francs and vice-versa when necessary. Even before World War II interrupted all normal monetary operations, it was evident that the "old" international gold standard was effectively dead. Most countries, notably excepting the U. S. and Switzerland, no longer had their note issues controlled by gold alone. In effect, a Dollar exchange standard was in operation, as U. S. policy determined the price of gold.

**The Bretton Woods Agreement** — In 1944, at about the time the Allied invasion of Europe was commencing, The Bretton Woods meeting was taking place here in the U. S. The allied nations wished to prevent a recurrence of the post World War I monetary chaos and thus created the *International Monetary Fund and World Bank*. One purpose of

the former was to help overcome "temporary" difficulties in the balance of payments and provide lending facilities of a scarce currency, with some restrictive and permissive provisions; in the broad sense, officially "to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration in international monetary problems."

►The Fund relied on gold as the international currency standard (the par value of each currency is defined in gold or indirectly tied to it through the present weight and fineness of the U. S. Dollar) and as a means of ultimately settling global balances.

►More extensive plans at the time were proposed by Keynes, who wanted to establish "bancor" as a world-wide currency, to be administered through an international clearing house, and White of the U. S., in favor of "unitas" as a global monetary unit in a somewhat less centralized arrangement, more in line with the Fund as it was finally set up.

However, even the Bretton Woods Agreement was opposed by almost all banks in the U. S. Admittedly far from perfect and ineffective in many ways, the IMF has nevertheless thus far served a useful purpose.

### The 1956 Suez and 1957 Sterling Crises

Outstanding examples of its worth were dramatically demonstrated during the *Suez crisis of 1956 and the 1957 Sterling Crisis*. The former case was marked by a U. K. drawing of \$561 million and a stand-by credit of \$739 million made available by the Fund. This combined sum equalled 100% of the U.K.'s quota and was provided on the promise that restrictive credit policy would be followed and that the value of the £ would be held. Again, in mid-1957, the financial position of Britain came under heavy strain. Speculation on an up-valuation of the German mark and a devaluation of the French franc and Sterling were widespread. Finally in August, the French franc fell under sharp pressures and lack of confidence, the latter always one of the leading, if not the primary factor, in the collapse of currencies. Spec-

## WORLD IMPORTS

(Millions of U. S. \$)

	1950	1959
Free World Total	59,891	106,000
U. S.	9,601	16,482
Canada	3,202	6,375
Latin America	5,630	8,130 <sup>1</sup>
Continental Europe and Related Areas	20,347	40,480 (est.)
Sterling Area	16,729	25,165 <sup>2</sup>
of which U. K.	7,305	11,172
Rest of World	4,382	8,878 <sup>2</sup>

<sup>1</sup>—2nd quarter at annual rates. <sup>2</sup>—3rd quarter at annual rates.



ulation then increased as to an inevitable devaluation of Sterling, to the extent of hundreds of millions of Pound "short" positions. Britain's reserves fell to \$1.85 billion but the unused IMF credits of \$739 million were still available from the International Monetary Fund. London drew on a \$500 million credit made available by the Eximort Bank, another U. S. lending agency. The bank rate was hiked from 5% to 7%, and it was firmly stated that Sterling would not be devalued. The appropriate British policy moves, the temporary use and availability of the large-scale credits and a resultant return of confidence had helped to avert speculation-inspired devaluation.

**The International Monetary Fund**, as was evident from the above and despite many admitted limitations and shortcomings, has proved the Central Reserve mechanism to have some value. Under the provisions of the Fund, a member country can buy foreign exchange for its own currency up to the maximum amount of that nation's growth, plus the amount contributed in gold, not more than 25% normally to be borrowed in any year.

These quotas have recently been substantially enlarged, increasing international liquidity considerably. The provision for this "buffer currency reserve" has been among the more constructive results of Fund operations. Whether or not it will suffice in the future remains to be seen, as will be noted later.

One evident point which indicates it might not, is the fact that the U. S., in a

period of relative stress, has not resorted to drawing on its \$4 billion unused rights. In addition, we have an approximate additional \$1.7 billion coming as a creditor.

The role of gold today is more limited than under the traditional gold standard. The metal still serves as an ultimate means of payment among countries and as a common yardstick of currencies. But the domestic importance of gold as a required reserve against note issue has been diminished, in that only in the U. S., Belgium, El Salvador, South Africa and Switzerland, is it obligatory to hold the statutory reserve in gold alone, rather than in gold and foreign exchange. In addition, reserve limits themselves are lower than under the old gold standard, in general. Tradition, however, remains strong for many nations to hold as much gold as they possibly can.

Internationally, gold is now supplemented by IMF credits, intergovernmental and agency grants and credits and direct foreign bond borrowings, as an equilibrating mechanism for balance of payments deficits. Gold, therefore, still imposes some sense of monetary discipline on both the international and domestic levels, although it be less formal and not the sole basis of adjustment.

**The Redistribution of Gold Reserves** in the 1950's, which took place as a result of U. S. balance of payments deficits and the ensuing outflow of American gold, occasioned mostly by large-scale U. S. aid, has undeniably added to international liquidity. The

existence of a practical Dollar Reserve Standard facilitated the expansion of money and credit in other nations, as foreign governments, central banks and official agencies could convert dollar assets into gold at any time. But the point seems to have been reached where it is realized, through the appearance of a sharply widened U. S. balance of payments deficit, that the latter can not long be sustained at this level in the new world trade and financial network of a recovered and advanced Europe. Therefore, the bettered liquidity position of the countries can not be expected to continue to be bolstered from America.

At the same time, more coordinated aid to underdeveloped countries must be provided by the Western nations, straining their own reserve positions, at least to some degree. With this in mind, and new gold added to world reserves

increasing by only an average of less than 2% a year in the 1950's while global imports were up, on the average, almost 7% a year, it is not surprising that some serious attention has recently been given to the adequacy of the present International Monetary Fund's framework and resources to cope with expanding needs and possible speculative runs on principal currencies.

#### Review of Interesting New Proposals

To give some indication of the direction of present thinking on the matter we will briefly highlight some of the new proposals.

To begin with, the formation of the European Common Market itself, and other like areas which followed, point to the eventual and possible, if not immediately probable, creation of common regional currency units, with (Please turn to page 110)

### GOLD PRODUCTION

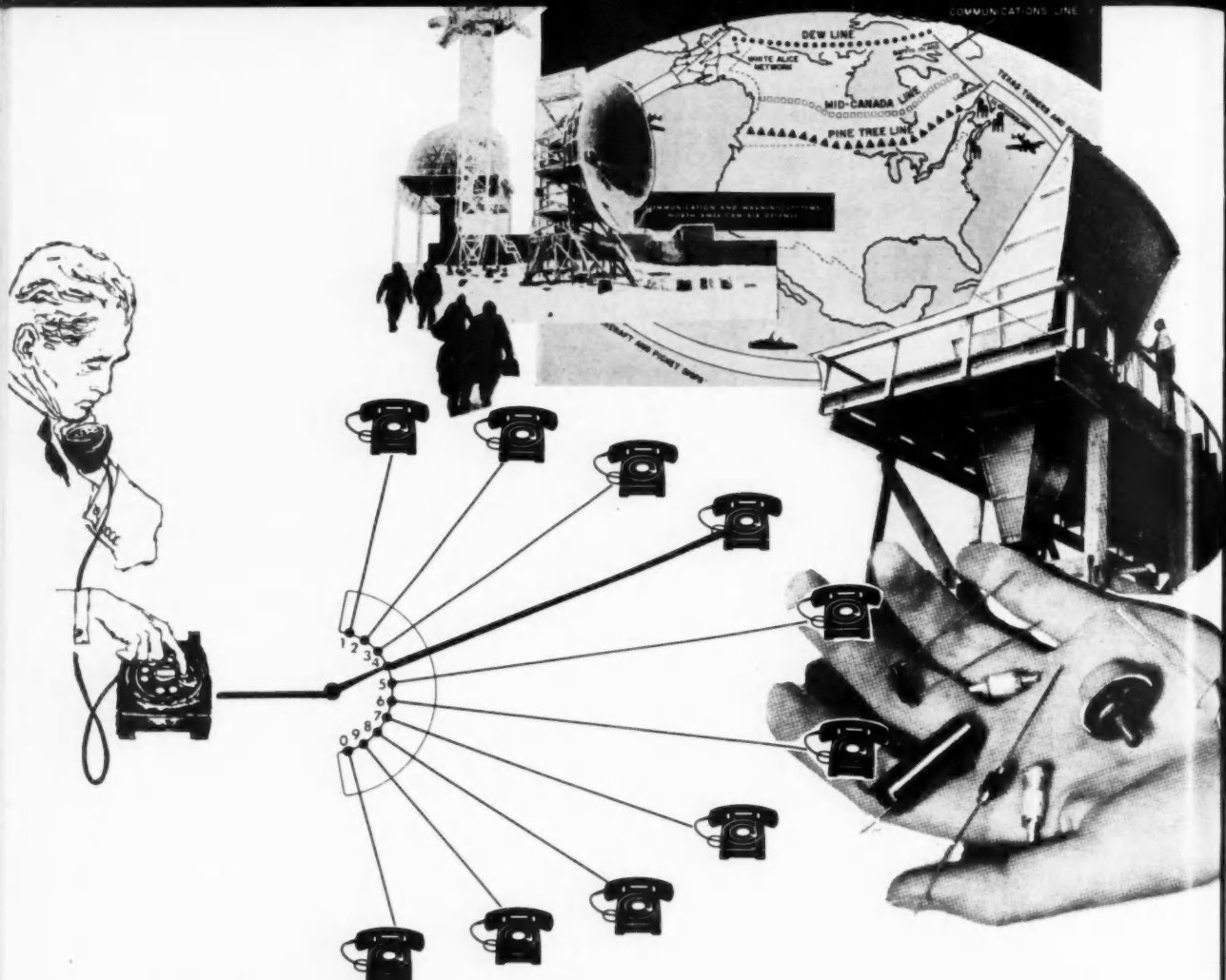
(at \$35 per Fine Oz. in Millions of U.S. \$)

	1950	1959 (est.)
Free World Total	846	1,150.0
Sterling Area	501.3	765.5
Canada	155.4	154.0
U. S.	80.1	48.6
Rest of World	109.2	181.9

### GOLD and FOREIGN EXCHANGE HOLDINGS

(Monetary Authorities and other Official Bodies)  
(Millions of U.S. \$)

	1950	1959 (3rd quarter)
Free World Total	56,370	69,420
Int'l. Institutions	7,777	13,282
U. S.	22,820	19,579
Canada	1,770	1,947
Latin America	3,170	3,140
Continental Europe	6,580	17,735
U. K.	3,668	3,298
Other Sterling Areas	7,130	6,305
Rest of World	3,455	4,130



# A.T. & T. — PREMIER INVESTMENT —IT'S GOT EVERYTHING!

By Kenneth Hollister

- What fine management over many years has accomplished in building a live and progressive institution
- Leader in research and development through Western Electric and Bell Laboratories—in communications in the air—below the ground—the bottom of the sea—and outer-space—and has built the finest telephone system in the world
- Possesses growth—and higher earnings-dividend outlook ahead.

**A**N interview with an owner of American Telephone & Telegram common stock could elicit the view that this security can be held for growth and for defensiveness, by conservative investors, speculators, professionals and amateurs, and that it has appeal as a holding for children, adolescents, adults and elderly people. It seems unbelievable that one security could be all these things, but in order to attract 1,737,000 stockholders, there has to be some appeal to each. Even more strange is the thought that there is merit in most of these opinions.

In part this broad acceptance of the security reflects a well planned and exercised public relations

program and in part the belated realization of benefits from the explosive growth of the company.

At the end of World War II, the company experienced the same forces of pent up demand that affected most consumer goods and services. In order to meet this requirement over \$21 billion was spent, and assets rose from \$6 billion to \$22 billion (the difference accounted for by retirements). During the period of rapid construction the price level rose over 70% (measured by the consumer price index), causing equipment installation to become more costly and necessitating almost continuous attempts to obtain higher rates. At the end of 1946, for example,

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unrestricted earned surplus was only \$14 per share, equivalent to less than two years dividend payments. The memory of earnings below \$9 in 1944 and 1945 further dictated caution. The capital ratios at the time were close to the long term policy of 35% debt, 65% equity. If they were to be maintained, however, the dilution would have been onerous. Thus, A T & T was simultaneously faced with the problem of seeking higher rates, raising capital to maintain the equity ratio, protecting the dividend and eventually having the growth of the system reflected in higher per share earnings. To walk this tricky tight-rope required excellent financial management and a delicately planned public and investor relations program.

#### Planned Growth

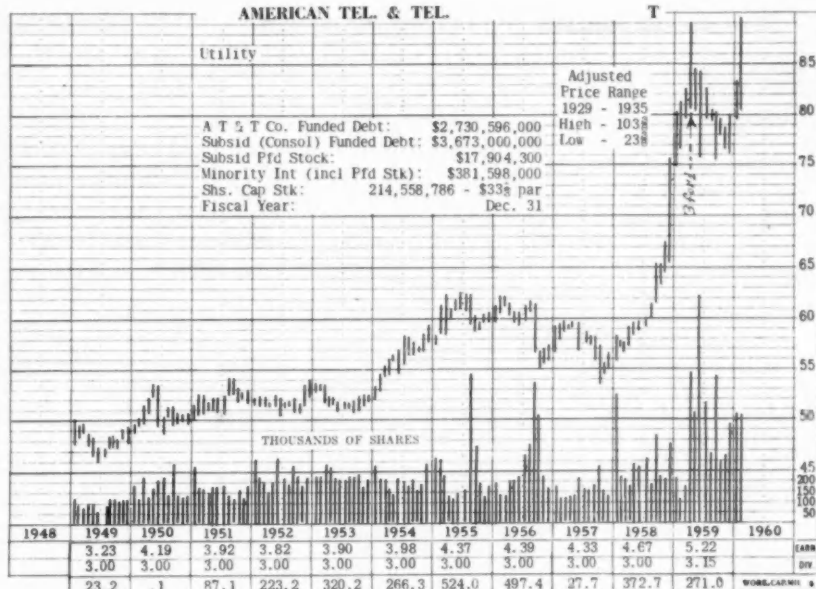
The United States at the end of 1959 had approximately 67 million telephones of which slightly over 58 million were on Bell System lines. Over the past 20 years this represents an increase of 41 million phones by the American Telephone Company or 232%. Since 1947 telephones have been added to the Bell System at the rate of 2½ to 3 million per year. During the same period the system has been converted from one only 65% dial operated to almost 96%. Manual central stations have also been replaced and the number of employees (applicable to telephone operations only) has risen from 524,000 to 583,000; the latter figure being below the peak of 641,000 in 1957. During the period the number of average daily telephone conversions has risen from approximately 90.5 million to over 208 million. While there are still many improvements that can be made the system is now able to concentrate on the development of premium priced products and service rather than using its efforts solely to provide basic service.

Currently practically every household in the United States in which the income is \$3,000 or more annually has at least one telephone. During 1959 1.3 million extension phones, an increase of over 20% from the previous year were added to the company's line and there were over 9 million extension phones in total. About 25% of the homes having telephones now have extensions.

Introduction of telephones in color probably has had more to do with sales of extension units than any other single development. An instrument that was formerly hidden in a corner became an accepted, even desired, part of a home's furnishings. In this area alone lies one of great potentials of the future growth of the Bell System.

Underlying these figures are two important factors: (1) the annual rate of calls per telephone installed has remained steady at about 180, (2) but relative to population the number of calls made per capita has risen from 161 annually in 1920 to 490 last year.

#### AMERICAN TEL. & TEL.



Thus, installation of an extension raises the total number of calls from a household, but so far has not increased the calls made on each telephone. The company is directing its energies in this direction and foresees a better ratio of equipment use in the future.

#### Population Growth and Higher Living Standards -

According to a company estimate the rate of household formation in the coming 15 years will be considerably larger than in the last ten years and may reach 57 million or 30% more than currently. Assuming that the standard of living will continue to rise, more and more families will be able to include a telephone and there will also probably be a significant rise in the number of extension phones or other individual services purchased. It is difficult to estimate the impact of these developments on revenues and earnings, but there seems to be a very close relationship between the increase in the number of telephones and an increase in the use of the total facilities available.

**Intercontinental Calls**—Perhaps an indication of the effect of having a new service can be illustrated from the results on intercontinental calls after installation of the transatlantic cable in 1956. During the first month in which the cable was in operation, calls between New York and London increased 60% and in six months rose 100% over the number made by radio telephone prior to availability of the cable. After this facility was enlarged, the number of calls made continued to rise rapidly. The same principle applies to residential phones and the company is planning greater conveniences to aid in stimulating this program. Among the devices under development which could have an important impact on sales in the coming years are automatic dials, push-button calling, smaller instruments, installations on every street corner, in automobiles and perhaps even in vest pockets.

Concurrently, the dialing system will be expanded to include Direct Distance Dialing for the entire



country and ultimately for the entire world.

Microwave systems are being enlarged to handle higher volume of long distance calls and ocean cables are connecting the continents.

**Future Plans**—Among the future plans of the company is a cable connecting the mainland with Hawaii and extending ultimately to Japan. New developments are also improving central station efficiencies and pulse code modulation is being tried as a means for multiplying the capacity of individual exchanges and improved transistor repeaters and carrier systems also will aid in this purpose. ► Telephone use by industrial concerns also is being stimulated by a number of devices such as the call director, automatic call distributor, the Data Phone, increased use of conference connections and private branch exchanges which permit direct dialing to individual extensions in large commercial and military establishments.

**Accomplishments**—Indicative of the growing use of the telephone is the rise in daily long distance calls, from 240,000 per day in 1920 to over 3 million per day last year. Improvements in facilities have reduced the time required to complete a long distance call from 14 minutes in 1920 to 2 minutes in 1940 and less than 30 seconds with Direct Distance Dialing in 1959. The instrument which carries the calls also has been materially improved and where it was necessary to speak in a raised voice in 1920 a normal tone is more than adequate with present equipment.

Use of all of these devices is directed toward one major goal—to increase the percentage of time that the facilities are in use. In this way, the telephone company can raise the income it receives from an investment in plant and facilities. Substantial progress has been made in achieving this aim and products already now being tested, plus others in various stages of development, auger well for further improvements.

#### The Breadth of the Enterprise

The Bell Telephone System derives major benefits from its ownership of Western Electric, which provides much of the technical equipment needed at reasonable prices and from the Bell Telephone Laboratories, owned jointly with Western Electric Co.

► The latter organization engages both in product development and research in all fields related to telephone.

► Through the Laboratories the Bell System has contributed importantly to the defense effort, coordinating work on the SAGE (Semi-automatic

Ground Environment) air defense system, the DEW (Distant Early Warning) Line and the Ballistic Missile Early Warning (BMEWS) system.

► In addition, Bell Laboratories designed a "Command Guidance" system for large ballistic missiles and similar devices for installation and use in the Nike Zeus. In cooperation with National Aeronautics and Space Administration, the Laboratories are directing a portion of the communication and tracking system to be used in the project Echo, an experiment in communicating via satellites, and project Mercury, the nation's plan to put a human being into space orbit.

These projects, of course, while adding immensely to the technical knowledge and capabilities of AT&T, provide little in the way of an immediate income.

#### Let's Look at the Record

The table below reflects some of the changes that have occurred in the Bell System in the last 20 years.

The difficult period of the early 1950s may be readily seen in the small improvement from \$3.75 for 1940 to only \$4.00 for 1956. Subsequently, however, the combination of increasing use of telephone greater efficiency, realization of rate relief from many state commissions and internal cash generation sufficient to reduce the total need for

financing has enabled the system to report rising earnings. The results for 1959, however, which represent a 15% increase in per share earnings over the previous year, were spectacular, but cannot be taken as an indication of the future rate of growth. Capital expenditures are likely to remain in the neighborhood of \$2 billion annually, reflecting expanding service requirements and the higher cost of complex equipment. Sales of premium priced products will continue to contribute importantly to revenue growth, but the need for prompt and adequate rate relief from regulatory authorities also will be necessary. In the long run, action of these bodies will be the determining factor in the rate of earnings growth. Most commissions, as mentioned above, recognize this need but in some areas the company is being forced to limit new investment to the greatest degree possible.

The most striking example is the refusal of the company to invest in two affiliated companies—Southern New England Telephone and Bell Telephone of Canada. Each of these two operating companies has grown along with the remainder of the Bell System, and each has required repeated sales of common stock. The investment of American Tele-

COMPARATIVE BALANCE SHEET ITEMS

	December 31		
	1958	1959	
ASSETS	(000 omitted)		Change
Cash & Marketable Securities .....	\$1,343,488	\$1,281,694	— \$ 61,794
Current Receivables .....	769,722	849,426	+ 79,704
Materials & Supplies .....	99,786	100,591	+ 805
TOTAL CURRENT ASSETS .....	2,212,996	2,231,711	+ 18,715
Net Plant & Equipment .....	16,028,024	17,273,396	+ 1,245,372
Investments & Funds .....	1,074,957	1,109,291	+ 34,334
Other Assets .....	177,974	192,603	+ 14,629
TOTAL ASSETS .....	\$19,493,951	\$20,807,001	+ \$1,313,050
LIABILITIES			
Notes Payable .....	\$ 103,000	\$ 95,000	— \$ 8,000
Accounts Payable .....	509,193	577,839	+ 68,646
Taxes Accrued .....	846,242	870,838	+ 24,596
Other Accruals & Liab. ....	381,797	417,030	+ 35,233
TOTAL CURRENT LIABILITIES .....	1,840,232	1,960,707	+ 120,475
Other Liabilities .....	61,987	87,415	+ 25,428
Long Term Debt .....	6,042,208	6,432,275	+ 390,067
Applicable to Subs. Stocks .....	344,173	344,178	+ 5
Capital Stock .....	9,272,024	9,627,664	+ 355,640
Surplus .....	1,933,327	2,354,762	+ 421,435
TOTAL LIABILITIES .....	\$19,493,951	\$20,807,001	+ \$1,313,050
WORKING CAPITAL .....	\$ 372,764	\$ 271,004	— \$ 101,760
CURRENT RATIO .....	1.2	1.1	— .1



## American Telephone & Telegraph Co.

	Total Plant (Millions)	Operating Revenues (Millions)	Net Income (Millions)	Earnings Per Share
1940	\$4,748	\$1,174	\$210	\$3.75
1945	5,702	1,931	177	2.92
1950	10,102	3,262	347	4.04
1955	15,340	5,297	664	4.09
1956	17,074	5,825	756	4.01
1957	19,117	6,314	830	4.28
1958	20,646	6,771	952	4.67
1959	22,205	7,393	1,113	5.22

phone in the equity of Southern New England has declined from 27% in 1946 to 19% in 1959, however, and holdings of Bell Telephone of Canada have been reduced from 18% to 3.5%. In other words, the American Telephone Company has, where possible, refused to support unremunerative growth. Such drastic action has not been possible in the case of wholly owned subsidiaries, but in a recent talk, Mr. Kappel, President of A T & T, emphasized the need for adequate rates before the Southern Governors conference. Stressing that a growing area needs good utility services, he viewed the erratic regulation of some of the Southern States as a deterrent to the attraction of new industry.

### Future Rates of Growth—Dividends and New Financing

Over the long term it seems reasonable to expect that the earnings of the Bell System may continue to rise at about 5-6% annually. The rate of growth, however, is not likely to be quite as stable as that of many electric utilities. Depending on financing requirements this year, earnings are likely to be in the \$5.40-\$5.50 range. With the 3-for-1 stock split and dividend increase in mid 1959 the company demonstrated its awareness of the need for rewarding investors if new capital is to be obtained. Future dividend increases are likely as they become justified by earnings, but it would not be prudent to expect annual increases. *To the investor, the Bell System may now be viewed as a well financed growing utility*

with prospects for per share earnings growth in excess of the expansion of the economy and which will, to the extent possible, pay dividends reflecting this improvement. Thus, in many ways it probably will continue to meet the requirements of a widely varied group of investors.

### New Investor Interest in Subsidiaries

The stock split of American Telephone has engendered investors' interest in the several subsidiaries and affiliates that have shares outstanding in the hands of the public. The subsidiaries are New England Telephone & Telegraph, Mountain States Telephone and Telegraph, and Pacific Telephone & Telegraph. In addition, the American Co. has a minority interest in Southern New England Telephone Co., Cincinnati & Suburban Telephone Co. and Bell Telephone of Canada.

**Pacific Telephone** serves most of the area west of the Rocky Mountains (with the exception of certain portions of southern California) and is the largest of the subsidiaries having a substantial number of shares in the hands of the public. Of 105 million shares, the public owns 10.5 million, adjusted for a recent 7-for-1 split. Pacific is subject to regulation in California, Oregon, Washington, Nevada and Utah and on balance has not been treated generously. In 1949 the return on invested capital was only 3.5% and by 1959 had risen to 5.7%.

### Bell System Earnings Outlook

The Bell System as a whole earned slightly over a 7% return last year. The earnings record reflects this problem and for 1955 the company earned \$1.40, a level not exceeded again until the past year when earnings rose to \$1.47. Recent rate relief, though modest, will probably contribute to slightly higher earnings this year. In view of the long term record of regulation in the service area, earnings growth is not expected to be dynamic for some time to come.

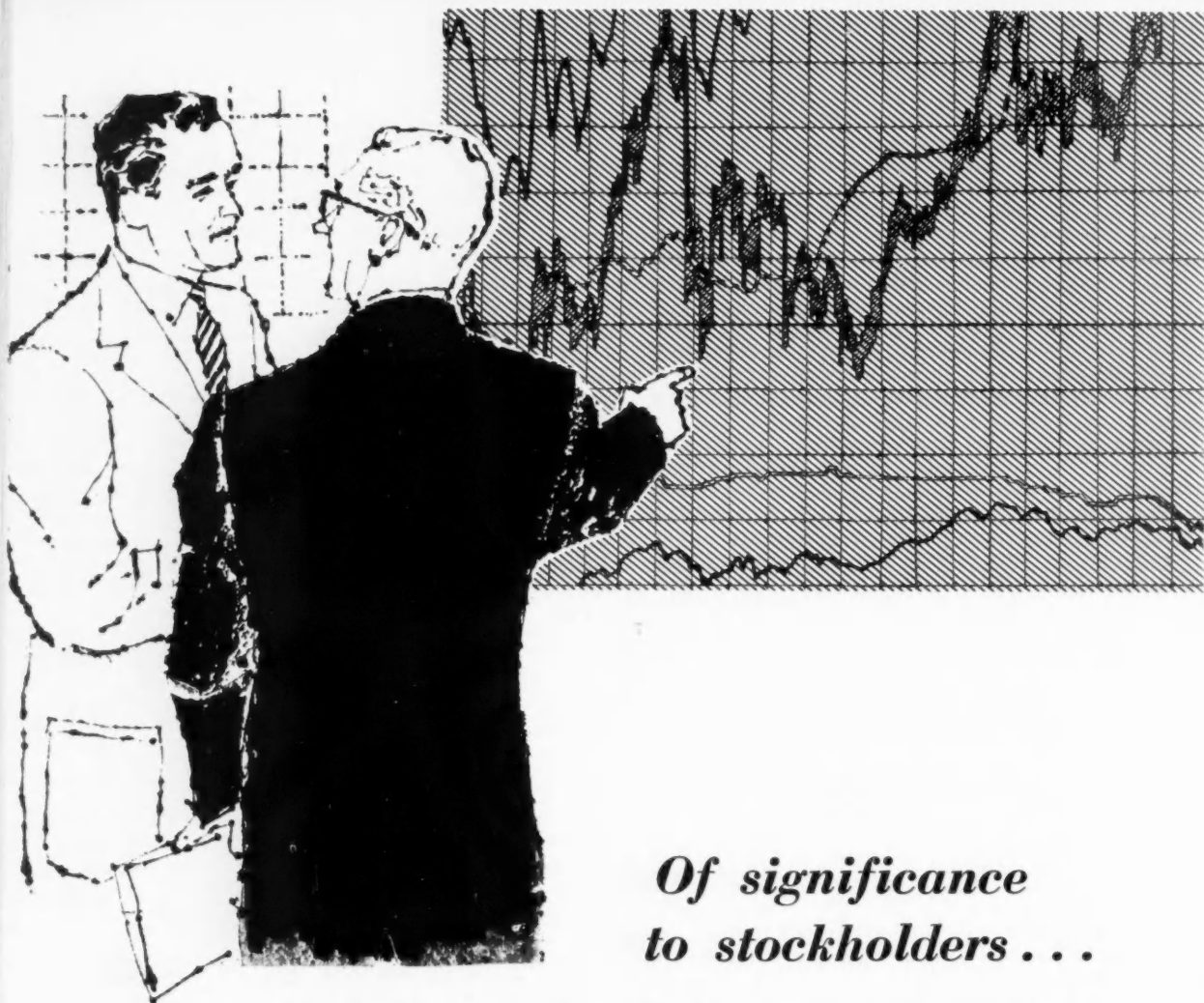
A combination of reasonable regulation and rapid urbanization in former relatively sparsely settled areas of Arizona, Colorado, New Mexico, Utah, Wyoming and southern Idaho served by **Mountain States Telephone**, has enabled this 87% owned subsidiary to report creditable earn- (Please turn to page 112)

## Long-Term Operating and Earnings Record (Bell System)

	Number of Telephones (Millions)	Total Operating Revenues	Net Operating Revenues	Total Operating Taxes (Millions)	Interest	Net Income	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Price Range High Low
1959	58.0†	\$7,393.0	\$2,913.5	\$1,690.2	\$221.6	\$1,113.1	15.0%	\$5.22	\$3.15	89½-75½¹
1958	54.6	6,771.4	2,539.5	1,483.1	211.6	952.3	14.0	4.67	3.00	75¼-56
1957	52.2	6,313.8	2,148.2	1,268.5	173.4	829.8	13.1	4.28	3.00	60 -53½
1956	49.4	5,825.3	1,948.6	1,157.7	145.1	755.9	12.9	4.01	3.00	62½-55
1955	46.2	5,297.0	1,762.4	1,041.4	131.8	664.2	12.5	4.09	3.00	62½-57½
1954	43.3	4,784.5	1,497.2	885.3	130.7	549.9	11.4	3.81	3.00	59¾-52
1953	41.3	4,416.7	1,331.9	798.6	115.8	478.5	10.8	3.77	3.00	54¼-50¼
1952	39.4	4,039.6	1,182.0	705.6	117.3	406.6	10.0	3.48	3.00	53¼-50¼
1951	37.4	3,639.4	1,065.1	629.8	117.8	364.8	10.0	3.67	3.00	54½-50
1950	35.3	3,261.5	927.1	499.4	113.5	346.9	10.6	4.04	3.00	53¾-48¾
10 yr. av. 1950-59		\$5,174.2	\$1,731.5	\$1,015.9	\$147.8	\$646.2	12.0%	\$4.10	\$3.03	89½-48¾

†—Approximate.

¹1959-60 range to 3/15/1960.



*Of significance  
to stockholders . . .*

## A MOST REVEALING RECORD OF "INSIDER" TRANSACTIONS

By ROBERT B. SHAW

- (1) Covering transactions by officers in the aircrafts—drugs—oils—automotives—foods
- (2) By officers of individual companies in a number of industries

**R**EADERS of the preceding articles in this series on insider transactions will realize that trends both of purchases and sales are extremely irregular. Yet they offer an added tool for gauging the price movements of a stock—for insiders, officers, directors and holders of controlling blocks of stock—do have better information, and receive it earlier, than the great mass of outside investors. Accordingly, it should be worthwhile noting transactions by insiders in the stock of their own companies, and particularly in looking for the pattern in which these might fit—either distribution or accumulation.

The most recent article on this subject (December 5) covered the period through September. In October sales among the 100 largest manufacturing cor-

porations used as an index showed no material change, but in November they leaped to the highest level in over a year—since August, 1958. Simultaneously, purchases dropped to the exceptionally low level of only 8840 shares in October, while some subsequent recovery still leaves them well below the average level prevailing since July, 1959. These changes are by no means startling, but do suggest the onset of a more cautious outlook on the part of corporate officers and directors, beginning in October. This represents at least a limited contrast with the finding for the preceding period of "a neutral attitude, or possibly mild optimism." Whether the reversal of the market trend that occurred in early January will prompt a more positive reaction

still remains to be seen.

### Significance of Insider Transactions

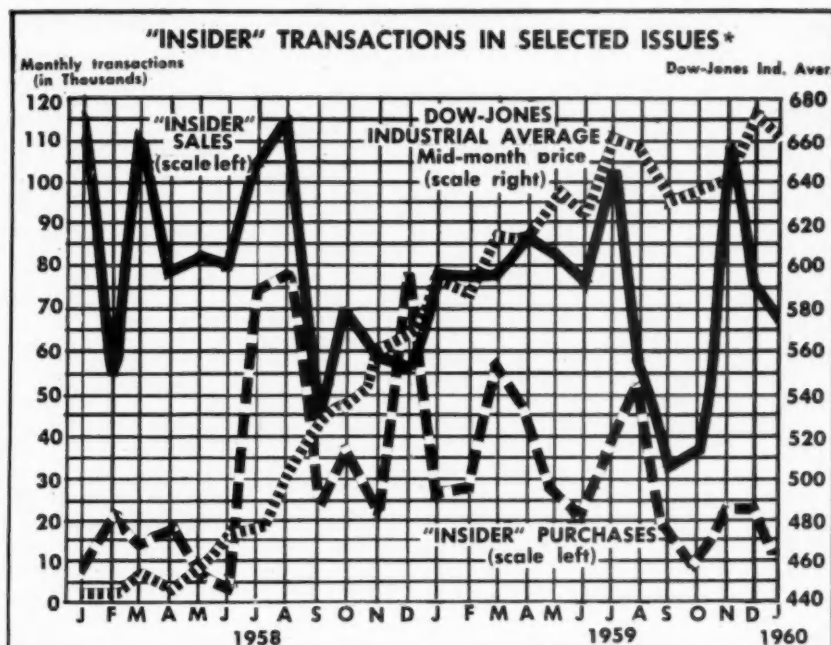
Before the New Deal era no check upon insider transactions existed, and executives all too frequently manipulated their stock to the injury both of their corporations and outside stockholders. Then, in 1934, the Securities Exchange Act required all insiders — officers, directors and holders of more than 10% of an equity issue—to report purchases and sales to the Securities Exchange Commission. The SEC in turn, publishes this data in its monthly "Official Summary." Not only are the insider transactions thus exposed to the glare of publicity, but a companion law provides that any profits realized from short-term trading may be recovered by the companies involved. These rules have substantially eliminated in-and-out speculation as well as any incentive on the part of insiders to control corporate news in such a way as to induce sharp fluctuations.

No restriction exists, however, upon realization of any advantage by principal stockholders from sale and repurchase of their stock after any period longer than six months. Such a restriction would, in fact, be patently unfair. While management stockholders should expect their profits only from basic improvement in their respective enterprises, and not from any form of manipulation, it would be unreasonable to deprive them of all flexibility in handling their financial affairs. The existing requirement of disclosure on their insider transactions should be sufficient protection for the general investing public.

But officers and directors are not under any obligation to announce their motives for dealings in their own stock, and these can only be surmised. Undoubtedly, stock is frequently sold, not merely because the management holders feel it is too high, but to carry out diversification, to anticipate retirement or death, and for numerous other reasons. Nevertheless, any seller, for whatever motive, will naturally try to act when he thinks the stock is relatively high. Similarly, the astute purchaser will step up his acquisitions when the stock looks particularly reasonably valued. In brief, insider transactions do not occur in a vacuum. And since it must be assumed that insiders are better advised as to the prospects for their own companies than the general run of stockholders, their aggregate purchases and sales are bound to have practical significance.

### Professional Interpretation Made

For various reasons, however, no worth-while conclusions can be drawn from a merely casual inspection of any single issue of the "Official Sum-



\* Stock transactions by Officers, Directors and Principal Stockholders in the 100 Largest Industrial Companies. Certain large transactions which would have distorted comparability have been omitted in these compilations.

mary." First of all, data covering each month is released to the public only about the middle of the second following month. And many individual reports are even much more tardy than that—although the promptness in reporting has improved noticeably since the present series of articles was initiated. Again, large transactions for special purposes, such as the settlement of estates, frequently distort the ordinary trends. Finally, all the transactions reported are so numerous, and involve so many different companies, that they convey little meaning unless arranged in some consistent pattern for successive months. This last objective has been accomplished in these articles by compiling buying and selling activity for one hundred of the largest industrial corporations and organizing it as a continuous index—depicted in the accompanying table.

This index excludes from the purchase side acquisitions of stock under option plans or as executive bonuses. This seems proper, as such acquisitions do not represent truly voluntary purchases. But as most management stock is picked up via the option route, this exclusion means that sales will invariably exceed purchases, as large holdings must inevitably be broken up by the inexorable process of time. Sales in excess of purchases do not by themselves, therefore, have any bearish overtone, although an increase in the usual ratio of sales to purchases, as in the period covered herein, may certainly have some significance.

### Recent Pickup in Insider Sales

The present index has not been compiled long enough to observe any clearly marked seasonal pattern in insider transactions. For the two-year period 1958-59 sales for the 100 companies covered have



averaged about 78,000 monthly, and for the most part have stuck fairly close to this volume. During August, September and October, however, sales fell to an exceptionally low level. As purchases went into the doldrums during the same period, this was not construed as more than mildly optimistic. In any case, November's sharp climb in management sales certainly cancels this indication. December and January sales, to be sure, did fall back a little below normal territory, but purchases have meanwhile failed to recover to their average level—about 32,000 shares monthly.

**For the month of January alone, the most recent period reported upon, the contrast is particularly sharp. Sales exceeded purchases by over six times, the highest such ratio since June 1958.**

In the light of the imperfections of the insider transactions index which have been described, no clear preponderance of executive opinion can be inferred from the data just reported. *Nevertheless, the recent recovery in monthly sales volume deserves attention. Simultaneously, a tendency to mark time in new purchases can be discerned.*

**These clues are slight, and could be entirely misleading, but if they have any meaning at all it can only be that insiders now believe that stocks are more likely to go down than go up during the intermediate future.**

#### Aircraft Stocks Remain in Disfavor

So much for insider sales in the aggregate. Now let's look at some specific industries. *Aircraft manufacturing stocks have now suffered from the persistent disfavor of their own officers for a long period extending nearly three years. This tendency shows no signs of reversal.*

In October 7,300 shares of **Curtiss-Wright** were sold, and in November 3,400 shares, making a total of no less than 111,400 shares sold by insiders since July, 1957. *These heavy sales have reduced holdings of some of the officers to merely nominal proportions.*

**For example, one vice president now retains only 100 shares, the controller 200, while the head of the Wright Aero Division wiped out his position entirely with his last transaction.**

Curtiss Wright reduced its dividend on February 24. Reported efforts of Curtiss to diversify in various directions have not so far induced any off-setting purchases.

No further heavy insider sales of **Douglas** nor of **United Aircraft** have been reported since September. **General Dynamics**, however, shows management unloading to the extent of 2,000 shares in October, 1,100 in November and 1,750 in December. **North American**, although enjoying substantially increased sales and bookings and holding its own in earnings last year, came in for equivalent sales of 20,600 shares in the October-January period, with heaviest concentration in November. *Here, again, some officers are now left with only nominal holdings.*

**Boeing**, for some reason not readily explainable—certainly not superior earnings performance—has been pretty nearly immune from this insider selling pressure all along.

All of the aircraft manufacturers just mentioned are included in the foregoing index of the 100 largest

companies. Insider divestment has been just as actively pursued, however, among several of the smaller companies. Particularly conspicuous is the case of **Lear, Inc.**, a manufacturer of accessories, where 87,570 shares have been disposed of since October of last year. Chairman William P. Lear himself sold 50,000 shares, but retains the not inconsiderable interest of 393,000 shares.

#### Question Mark in the Drug Industry

While the drug industry has not suffered tangible damage, it did soar to possibly precarious heights last year and more recently has been the object of some very disagreeable publicity about its high markups. The trade has not hesitated to defend itself vigorously against these allegations. Nevertheless, legal restraints upon prices or profits are at least a remote threat, and this invites attention to executive response as measured by insider transactions.

Two of the large companies—**Merck** and **Norwich Pharmacal**—have shown a heavy volume of insider sales in recent months. In the case of **Merck**, 1,550 shares were sold in October, 2,200 in November, 1,500 in December, and 400 in January. For **Norwich** the selling trend accelerated sharply in January, when 14,100 management shares were unloaded, compared with 6,700 in December and 500 in November. A third company, **Abbott Laboratories** experienced a single large sale of 2,080 shares in January.

This trend is not, however, confirmed by the remainder of the industry. **Pfizer** has exhibited no insider selling since August and **Schering** none since October. And contrariwise, officers made substantial purchases of **Parke, Davis** in January.

#### Little Sign of a Turn in Oils

The heavy insider selling in the oils occurred back in 1957 and 1958, and for many months now the transactions on both sides have been extremely desultory, making it difficult to discover any trend. **Sinclair**, whose \$3 dividend is probably in some jeopardy, has shown no insider transactions since October. **Standard of Ohio** alone has exhibited a continued selling tendency, although this was offset by a purchase of 930 shares in December. Elsewhere, transactions seem either to have dried up or to have taken place only in isolated fashion. During the November to January period, however, a slight preponderance of purchases over sales has appeared, and buying in some volume of two of the **Standards**—**New Jersey** and **Indiana**—was reported. Altogether, these signs appear too faint to be given any significance.

#### Automobile Industry Negative

In the preceding article on this topic rather substantial sales during the summer by officers of **Ford** and **General Motors** were reported. Again in December 420 shares and in January 1,000 shares were divested by Ford executives. Also in January, General Motors personnel unloaded 2,130 shares, the first heavy sales since October. President Romney of **American Motors** sold 10,000 shares of his stock during January—in a move, he said, to allow him to exercise options on additional shares. **Chrysler**, which had shown no insider activity for many months,



likewise came in for 5,000 shares sold in November. But a clear reading of a single trend into these transactions is confused by the countervailing purchase by Vice President Tom Lilley of 2,400 shares of Ford in December. It must also be remembered that these companies have unusually large complements of officers. **General Motors** executives also received substantial share distributions under their management bonus plan during January. On the whole, however, the outlook for the automotive industry, based on the appraisal of insider transactions, is negative.

#### Unloading in Foods?

One industry—food—which is distinguished primarily for its stability and steady growth, rather surprisingly shows some signs of management disfavor. 2,500 shares of **Borden** were sold in November and 1,500 in December. And in one single transaction 9,000 shares of its competitor, **National Dairy Products**, were divested by Vice President Robert S. Gordon, in December. In January, **Corn Products** showed up with sales of 5,110 shares, principally by one of its directors. **General Foods** has been entirely absent from the list of insider transactions for many months, but **General Mills** has shown consistently large sales, aggregating nearly 15,000 shares, throughout the October-January period. The validity of this data has already, of course, been demonstrated by the company's sharp earnings decline in the six months ending November 30, and it may further suggest that the officers do not expect substantial recovery in the present period.

Without any previous activity for many months **United Biscuit** came in for the sale of 2,000 shares by Vice President R. R. Richardson, in January. However, its twin, **Sunshine Biscuits**, has shown no recent dealings of either sort. **United Fruit**, despite its perplexing difficulties, has been bought in small but rather steady volume by its officers in recent months, evidencing either loyalty or confidence. (A dividend of 25¢ was declared by United Fruit on March 28, with possibility of further payments in June.)

In a related industry, **Continental Can** has been sold consistently by its officers since October, although its rival, **American Can**, has shown no similar tendency. Altogether, these signs would seem to suggest some doubt about prospects for the food industry, even though these stocks otherwise seem to have many merits at the present phase of the market.

#### Other Companies

Despite the tentative conclusions given above, it

will be clear to the reader that, aside from the aircrafts, it has been difficult to discern clearly defined trends for entire industries. Many individual companies, however, do show much more reliable signs of attraction or disfavor on the part of their own management, and these could have more genuine significance.

To enumerate some of these, **Burlington Industries** has been heavily sold by several of its officers, including Chairman J. Spencer Love, in November, December and January. Could this suggest that last year's very sharp earnings improvement is not likely to be maintained? No significant action could be simultaneously observed on the part of two other textiles, **American Viscose** and **Celanese**.

**Westinghouse Electric**, despite entirely favorable earnings reports for recent periods, has been the object of heavy inside selling: 6,220 shares in November, 4,400 in December and 620 in January. ► **General Electric**, on the other hand, has shown a clear predominance of buying in recent months. ► **Minnesota Mining**, one of the blue chip favorites, has also appeared conspicuously on the selling side of the list, with 6,900 insider shares being disposed of in November, 3,600 in December and 5,800 in January. Perhaps these sales represent nothing more than a cautionary liquidation after an unusually rapid market climb. ► **Monsanto Chemical** has been unloaded in exceptionally heavy fashion, to the tune of a total of 44,640 shares in the October-January period. This selling has been widely distributed among a large number of officers and directors and may suggest that last year's recovery from the 1955-58 downtrend is not expected

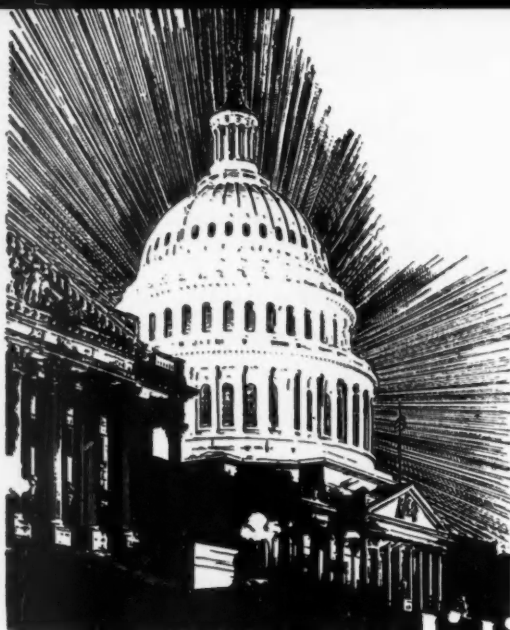
#### Substantial Insider Net Sales \* (October 1959 to January 1960)

	SHARES
Borden .....	3,900
Burlington Industries .....	42,900
Chrysler .....	5,000
Continental Can .....	2,700
Curtiss-Wright .....	11,300
Dresser Industries .....	2,000
General Dynamics .....	4,850
General Mills .....	11,200
General Motors .....	4,180
Minnesota Mining .....	13,400
North American Aviation .....	20,800
Standard Oil Ohio .....	2,670
Thompson-Ramo .....	1,600
U. S. Steel .....	9,650
Westinghouse Electric .....	11,140

\*—Net sales shown above are all total sales minus purchases within same period. Obviously, a given volume of sales will be much more significant for Dresser (5 millions shares, 22 officers and directors), than for General Motors (282 million shares, 60 officers and directors).

to be permanent.

A steady trend of selling, previously pointed out, has continued for **U.S. Steel**, with 4,350 shares disposed of in January. However, no corresponding tendency is visible among other members of the industry. ► Management holders of **Thompson-Ramo-Wooldridge** have similarly continued to lighten their commitments. ► 9,900 shares of **Brunswick-Balke** were divested in November and in January sales leaped to 28,100 shares, on the part of seven different officers. ► Among more speculative issues **Thiokol** was unloaded by its management to the extent of 27,900 shares in November, 1,600 in December and 5,500 in January. The largest individual seller, of 30,000 shares was Director Robert Lang; but he retains 336,000 shares. ► Another highflyer, **Ampex**, experienced management selling of 10,900 shares in November, 4,000 in December and 2,000 in January; ► while insider holdings of **Texas Instruments** were lightened by 3,200 shares (Please turn to page 112)



# Inside Washington

By "VERITAS"

**AIRLINES**, harassed by series of spectacular crashes, suffer no revenue loss. Rumors that crack-ups have brought serious revenue losses are absolutely without foundation. Despite high casualty count since January 1, passenger mileage has steadily mounted during the first three months of this year and, according to responsible airline and Government sources, the curve will move upward. Equipment losses, admittedly heavy, have been amply insured. In fact, only cloud on commercial aviation's horizon

## WASHINGTON SEES:

Emerging from the Eisenhower-Macmillan talks is the certainty that the Paris Summit Conference will, to a great extent, be merely an elaborate ceremonial, lacking as it does the possibilities of firm decisions. It could not be otherwise, since the President cannot obligate this country to important commitments without legislative approval, unlikely to be forthcoming in this election year.

Our Chief Executive has taken every step he possibly can toward adjusting the differences between Russia and the West regarding disarmament, with the proviso that the Russians agree to set up a system of inspection and international control. And he has met, as well as he can, Mr. Macmillan's plea for a moratorium on underground nuclear explosions, enabling the Prime Minister to go back home with that much accomplished—for the Russians were slick enough to pattern their plan on the suggestion made by the British in the first place.

As far as the Berlin question is concerned, Khrushchev has made himself look ridiculous by openly seeking to break up the West German-French Alliance while, at the same time, posing as the World's leading Apostle of Peace—making it clear that Russia will not make any compromises unless forced to do so.

Such important preliminary steps are now beginning to tell us pretty much how the Paris Summit Conference will go.

is increasing public demand for jet service—even on short flights. However, the air-minded public will have to wait for some time yet. The airlines have available ample financing for jet equipment, but the airports which can accommodate the super-sonic craft are "few and far between." In the meanwhile, the President clings to his policy that expansion of local airports is a local—not a Federal—responsibility.

**DEFENSE AIRCRAFT PROGRAM** to have Congressional scrutiny—this applies both to Strategic Air Command's desire for resumption of B-72 bomber construction and Military Air Transport Service's lack of planes (only 29 in service) to airlift troops to "brush wars" and other potential trouble spots. Congress is prepared to whittle foreign aid (in particular) and other portions of the budget to assure air-borne alert (armed with nuclear weapons), and air transport for troops and materiel.

**TAX REFORM** is now very definitely "out the window." So much so that Democratic House leadership has withheld vote on Ways & Means Committee approved Boggs bill (H. R. 5) which would have allowed U. S. corporations certain tax credits on their foreign profits. Fear is that any House-passed tax measure would be heavily amended in Senate. House leaders don't want any major tax changes during present session, prefer to wait until next year when complete revision and simplification of Internal Revenue Code is slated to come about.

**CANADIAN-U. S. relations**, which have been improving, are bound to feel the pressure of the reported program that this country intends to barter wheat surpluses for strategic minerals from foreign areas. Our Canadian cousins, realizing hard cash from wheat exports, while we have sold some of our crops for depreciated currencies, are not happy over the prospect that we might severely whittle their cash income through cutting deeply into their wheat export markets. The problem is one for serious study by our State Department, and the Department of Agriculture.

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# As We Go To Press

The Electric Automobile To Make a "Come-Back"? This is the confidential word from a major automotive production executive who forecasts quantity output within 18 months, not over two years. He states the "secret" lies in smaller, more durable batteries, rechargeable from any household 110-volt circuit and capable of delivering "above" 350 miles of service at speeds up to 60 m.p.h. The new vehicle will be primarily for city use, five or six passenger capacity, with possibly some light delivery trucks included in the line. With respect to a jet-powered car, a few test models now extant, he was pessimistic, stating the problem of exhaust now seems "insurmountable." The atomic powered auto? Perhaps a decade in the future; bulk and weight of reactor, plus radiation hazards, are in the way.

**Graduates Threaten to Swell Ranks of Unemployed.** Department of Labor and the White House, pleased with recent drops in numbers of unemployed, look toward June with less than

pleasure. Holders of diplomas, High School and Collegiate, who will be seeking employment will number around 848,000. Answer to the problem may lie with Federal taxation policies - "on the shelf" until 1961 when Congress tackles tax revision and simplification of Internal Revenue Code.

Absorption of new "recruits" to the labor force depends primarily upon an expanding economy, something difficult to achieve with any degree of acceleration under present tax schedules which retard incentives to expand plant and production. Reasonable tax concessions could multiply employment opportunities without loss of Federal revenue - income tax on new additions to the labor force would more than offset losses from the concessions, according to top Washington experts in Treasury, Departments of Labor and Commerce, as well as near-majorities of House Ways & Means Committee and Senate Committee on Finance.

**Revision of U. S. - Japanese Reciprocal Trade Agreements Seem to be in the Making.** The Nips, long serious competitors in cotton textile field, have now made serious inroads in other areas - radios, cameras and precision instruments. In small radios (transistor type), the Japanese are admittedly producing sets superior to those made here, while their cameras quality-wise, run ahead of those of German make and those of this country - and at about one-half the price. This is also true of their precision instrument output where electronics or high quality lenses are involved. Action by Congress before adjournment is not likely,

but Tariff Commission is carefully probing complaints of U.S. manufacturers - may come up with quotas or higher tariffs before January 1.

**Distilled Spirits Production Baffles Washington;** for beverage consumption, that is. Government and industry figures indicate whiskey, gin, brandy and vodka monthly production is now running nearly five times greater than consumer demand. Two questions arise. Potential return of prohibition? Another war with consequent entailed production? Present warehouse stocks of distilled spirits would satisfy normal consumption for about six years, but their build-up continues to run way ahead of demand.

**Clamp-Down on Consumer Credit in the Offing?** Installment buying, with resultant high interest and carrying charge rates, begins to fret Federal Reserve Board and Treasury Department. Hidden charges in this type of credit produce interest returns ranging from 12 percent to 30 percent - even higher. This is one, just one, reason why marketing of Government securities becomes more difficult. Also bothering Treasury (especially) is fact that Government guaranteed savings in mutual savings banks and building and loan associations are bearing higher interest rates than Federal saving bonds. This could (but will not) be modified by Congress before adjournment, but Federal Reserve could check consumer credit through refusal to re-discount installment paper.



"Financial Malnutrition of Railroads" is getting Congressional attention, but action this Session is "not in the cards." Senate Interstate Commerce Committee, aware that rail carriers carry onerous burden of taxation and have to compete with Federally subsidized carriers — airlines and trucklines, which travel the highway almost "for free," is now "seriously" concerned over rail plight. About ready to approve railway "invasion" of bus, airline and pipeline transportation areas, Committee now thinks of passenger and other subsidies for the railroads.

Senate Majority Leaders Lyndon B. Johnson, tacitly a candidate for democratic presidential nomination to make no formal announcement for some weeks, maybe not at all. His plans are entirely in the hands of House Speaker Sam Rayburn, also of Texas, who will decide if open announcement is advisable after there has been time to survey reaction of 11 southern states to Civil Rights legislation. If there is no formal announcement, it will not mean that Johnson is "out of the Convention picture." While the three openly avowed candidates — Sens. Hubert Humphrey (Minn.), John Kennedy (Mass.) and Stuart Symington (Mo.) are "barnstorming," the canny Rayburn is active back-stage, quietly mustering delegate support for his fellow Texan.

A Tired, Irritated Congress, Civil Rights legislation disposed of, will handle little controversial legislation from here on out. Principal goals will be disposal of major appropriations bills and a clean-up of routine matters prior to tentatively planned July 1 adjournment. There will be little tendency to "buck" the President on measures he is certain to veto, although House Appropriations Committee has hiked by over \$100 million funds for Department of Health, Education, and Welfare's programs of cancer and other health research. The President's veto of this could be overridden, and it is about the only pending legislation that is veto-proof.

Congressional Probe Will Clear Ike. Planned Armed Forces Committee "look-see" into Navy Band's ill-fated trip to South America at time President was down there will definitely develop that Mr. Eisenhower knew

nothing of the planned band tour until too late to cancel. In fact, bandsmen were already in South America before the President was apprised. Due for a sharp rap on the knuckles is Chief of Naval Operations Admiral Arleigh Burke, primarily because of poor handling of insurance arrangements for the bandsmen.

House Spendocrat plans went awry a few weeks ago, perhaps pointing up that the Congress now has some feeling for the overburdened taxpayer. It all came about when the Representatives, by a vote of 208 to 171 rejected a proposal — under suspension of the rules — to approve a \$600,000 appropriation to purchase an historic Arizona "shrine" with an assessed valuation of only \$10,000. It all indicates, election year to the contrary, that vote-getting money bills will have more careful scrutiny during the remainder of the session.

Tanker-Oil Import Fight Shapes Up. Proposals that one-half all oil imports into this country be required to be carried in U. S. flag tankers is almost certain to land in the laps of Congress. Idle U. S. tankers concern Maritime Commission as well as owners. About 55 percent of American-flag tankers are laid up for lack of cargoes, now going to alien flag shipping. State Department will vigorously oppose any change from present conditions, asserting that such change would be contra to our "trade-not-aid" policy. Supporting State will be backers of reciprocal trade program. Congressional session is too far along for definitive action before adjournment.

Universities Question Gains from Government Research. Leading universities and colleges begin to look with jaundiced eye upon Federal research contracts in all areas — medical, rocket, electronics, etc. Irking the educational institutions is Congressional mandate that no more than 15 percent of contracts be allocated to overhead and management. Many of the colleges and universities find this cost running as high as 40 percent, with consequent losses on the Federal projects. Four major institutions have indicated their desire to "quit." Others may follow, which would be a severe blow to progress in these fields.





POWER DAMS

## —A First-Hand Story of Political-Economic Change AFRICA IN THE THROES OF A REBIRTH

By Dr. ALPHONSE A. CASTAGNO

Consultant and Lecturer on African Affairs, who recently spent 18 months in Africa under a Ford Foundation Grant

- ▶ Dynamism and conflict between the new and the old
- ▶ Trend in political leadership — stumbling block of native illiteracy for administration and economic planning
- ▶ Severe handicaps of climatic conditions
- ▶ Africa's great wealth in agricultural products and minerals — conditions that cause slackening investment
- ▶ Challenge to the United States and Russia — to the world

**T**HE words spoken by Representative Frances P. Bolton on her return from Africa will find an echo in the heart of those who have also sensed the great spirit of this vast continent, now on the move. No one could have expressed it better, when she said — *"Those of you who have been to Africa know something of its vastness. You have felt its mystery, you have been stirred by its almost incredible possibilities. You have, perhaps, found your own emotions shaken, as never before, by the power, the force, that seems to well up out of the very earth. You have been faced with the reality of Africa's awakening. It is as if a great giant stirred for the first time in many centuries, stretching himself, opening his gentle eyes upon an unknown and very disturbing world. Perhaps you, too, have found your own world somewhat shaken by direct contact with this awakening, and all it can mean to the future of mankind..."*

In this world, on the brink of great revolutionary change, one of the most significant developments since World War II has been the rapid political, economic, and social changes which have been sweeping over Africa. Only a decade ago, virtually



### External Trade, By Country (Millions of Dollars)

Country	Imports		Exports	
	1950	1958 (est)	1950	1958 (est)
Angola .....	58	123	75	128
Belgian Congo .....	188	359	261	404
Cameroons .....	60	102	47	106
Ethiopia .....	30	67	27	83
French Equatorial Africa .....	77	140	40	94
Ghana .....	135	237	192	263
Liberia .....	11	.....	28	40
Kenya, Uganda & Tanganyika .....	200	340	20	343
Madagascar .....	86	127	71	97
Mauritius .....	37	62	32	60
Mozambique .....	58	118	37	69
Nigeria .....	173	448	253	380
Rhodesia and Nyasaland .....	231	441	242	380
Sierra Leone .....	19	67	22	54
Sudan .....	78	183	95	134
Union of South Africa .....	851	1557	626	1091

this whole area of 165,000,000 inhabitants was under colonial control. The only non-colonial areas were Ethiopia, Liberia, and the Union of South Africa. Today, Ghana, Sudan, the Cameroons, and Guinea are sovereign states, and during the remainder of this year, Somalia, Togoland, Nigeria, and the Belgian Congo will secure their independence — Sierra Leone and Uganda stand poised for self-rule in the next few years.

Since 1958, twelve of the French African territories have received "Republic" status with complete control over their internal affairs; many of them are now agitating for complete independence within a French "commonwealth." In East Africa, the British territories of Kenya and Tanganyika, both multi-racial in composition, are swinging with the pendulum of political change. The speed of transition can be appreciated when it is realized that in 1954 the Visiting Mission of the United Nations recommended independence for Tanganyika in "twenty years" and that in 1956 Belgians who were advocating independence for the Congo in "thirty years" were labelled "radical."

#### Conflict Between Habit and New Ideas

Any area undergoing such rapid transition and change is certain to be plagued by major problems. In the newly independent states of Africa the basic problem, that of maintaining political stability and security, derives essentially from tribalism. Everywhere on the continent, the symbols and values of the tribe still challenge those of the nation state. Invariably, the presence of tribalism holds serious consequences for political development. In Ghana,

it has led the government to suppress opposition. In the Cameroons, "leftist" forces have attempted to use tribal rivalries as an instrument for overturning the pro-French government. The announcement of independence for the Belgian Congo has intensified tribal distrust, suspicion, and competition for domination of the new government. In Somalia, tribalism has been utilized by foreign powers in their contest for controlling influence in that area. In Uganda, independence and unification have been impeded not by the administering power, but by the old feudal kingdom of Baganda which insists on having a dominant position in the new state. And in Nigeria, the strength of tribalism has led some observers to doubt that the political leaders can produce a viable federation. On the sociological level, tribalism often reinforces the traditionalist leaders against the intellectual and political elite and militates against attempts to introduce social and economic reform.

#### Strong Leadership Essential

*Since tribalism tends to generate fragmentation of the body politics, the new states have been impelled to move in the direction of benevolent authoritarianism.* This does not mean that democratic procedures do not exist. What it does mean is that democracy, as we understand it, is still largely inoperative. The reasons are clear. African political leaders, such as Kwame Nkrumah in Ghana and Sékou Touré in Guinea, need strong powers if they are to fashion modern nation states out of the conglomeration of diverse ethnic groups which comprise their territories. They must produce stability and they must produce it in heterogeneous societies having low standards of living and high illiteracy.

Rightly or wrongly, many Africans believe that progress and security are contingent on effective leadership and control rather than on parliamentary procedures; hence the Sudan is controlled by General Ibrahim Abboud; the Ivory Coast by the dynamic prime minister Félix Houphouët-Boigny; Ethiopia by the absolute monarch, Haile Selassie, and Liberia by a progressive, but autocratic president, William Tubman.

That these leaders are authoritarian does not mean that they are incompetent. *Non-Africans readily admit that the new African leaders are not lacking in political sagacity, acumen, and realism.* The art of government is essentially the art of balancing all the important factions in such a way that conflicts of interest are pacifically resolved. For this, little formal education is required; common

### Production of Electricity in Selected African Countries

Country	Total Production Millions of Kilowatt Hours	
	1948	1956-1957
Angola .....	23	75
Belgian Congo .....	497	1892
Cameroons .....	2	96
French Equatorial Africa .....	7	39
French West Africa .....	20	141
Gambia .....	1	5
Ghana .....	171	251
Kenya .....	59	239
Liberia .....	10	31
Madagascar .....	27	59
Nigeria .....	108	274
Northern Rhodesia .....	.....	1265
Southern Rhodesia .....	330	1229
Sudan .....	30	1234
Uganda .....	8	108
Union of South Africa .....	9259	18580

sense is the answer.

*Administration, on the other hand, demands highly trained technical skill. And it is this skill which is most wanting in the new states. As a stop gap, Africans have retained many former European civil servants; in fact, there are presently more European administrators and technicians in the Ghanaian administration than there were in 1956, prior to independence. But despite these measures and the current feverish efforts to train personnel, it will be some time before there are sufficient numbers of trained African administrators to handle the technological demands of the new states.*

#### Complex Problems of Race, Pride and Boundaries That Stand in the Way

In every African territory which has received independence, new problems have been superimposed over old ones. Thus, tribalism has not only released centrifugal tendencies, but it has, as well, led to boundary conflicts. These conflicts result, in part, from the fact that frontier demarcations which the colonial powers established, often cut across traditional tribal boundaries and divided what had been, ostensibly, cohesive tribal groups. The over-all consequences of the present efforts of these groups to regain their cohesion cannot be appraised at this early stage, but in two areas they already hold serious implications. In West Africa, the present struggle is between Sylvanus Olympio, the prime minister of Togoland, and Nkrumah of Ghana. The latter has recently made a verbal bid for the absorption of Togoland, and the former has responded with demands for a defense pact among former French African territories against any "territorial aggression." In the Horn of Africa, the Ethiopian Emperor has sought to "federate" his "old province" of Somalia with Ethiopia, while Pan-Somali nationalists are seeking to unify the Somali-inhabited lands of Ethiopia, Kenya, British Somaliland and French Somaliland. These conflicts tend to force African politics into the classic European mold—alignments, alliances, and intervention by third parties. They heighten the feeling of insecurity and impose demands for arms that present budgets can ill afford to maintain.

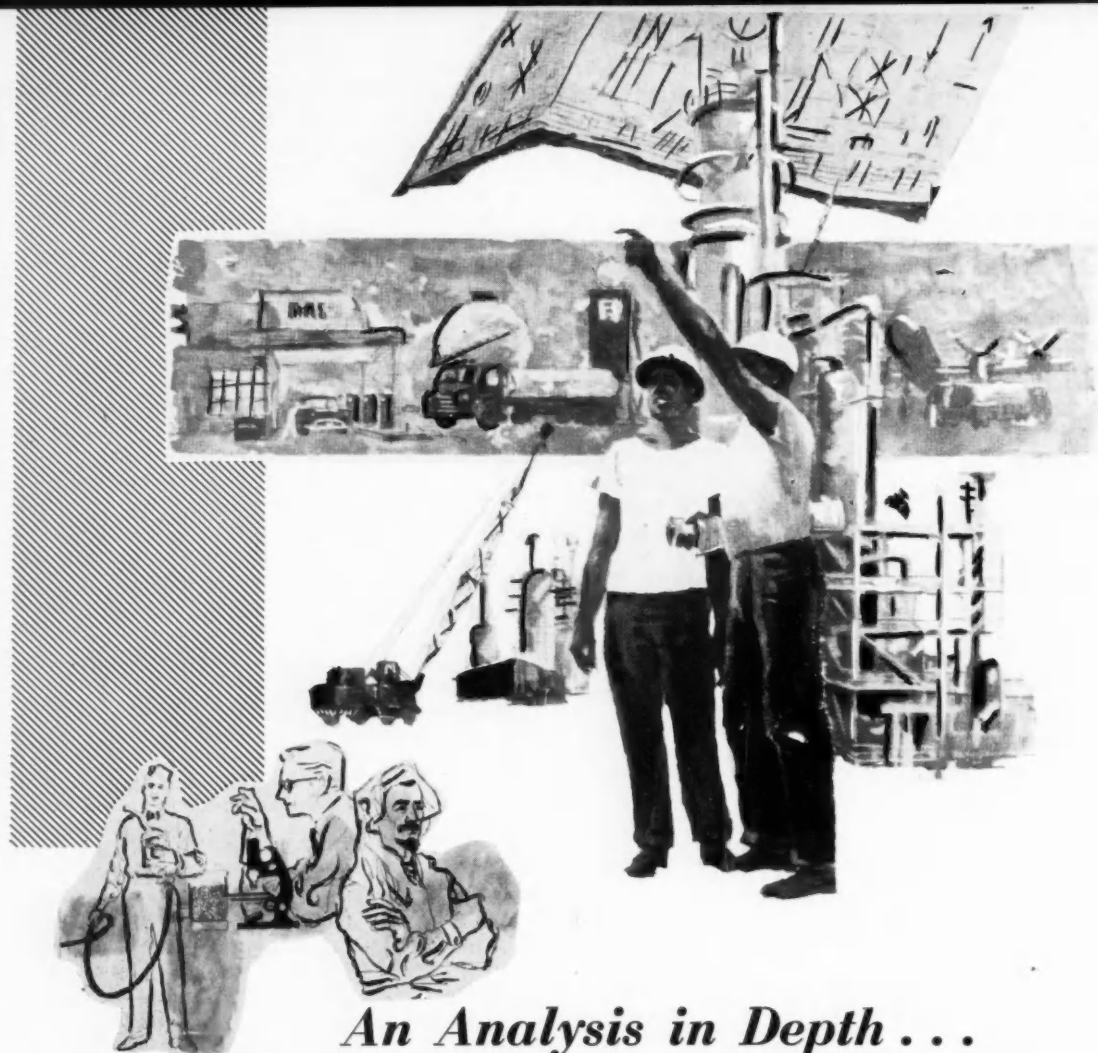
**Pan Africanism a dream?**—Modern African leaders are aware of the dangers inherent in the transitional stage of development. Nkrumah has taken the lead in promoting the idea that Pan Africanism (United Africa) may be the major instrument through which these problems can be resolved. In spite of the recent Pan African conferences at Accra and at Tunis, however, and the unanimous condemnation of "imperialism, racialism, and foreign intervention," there has been little agreement on practical goals. Pan Africanism has in fact heightened the competition among African leaders for dominant influence over the continent. For example, Nigerian leaders, who represent the 35 million people of the largest African nation, would never acquiesce to Pan African leadership by Ghanians who represent a nation of only 6 million. In the sphere of world politics, Pan Africanism can have an effect through bloc voting in the United Nations — as it did in the recent resolution denouncing France's explosion of the atomic bomb in the Sahara. But here, too, its force (Please turn to page 112)

#### Output of Principal Export Commodities, by Country, 1950-1957

(In Thousands of Tons: unless otherwise stated)

Commodity and Country	1950	1957
<b>Antimony</b>		
Union of South Africa .....	8311	9997
<b>Bauxite (crude ore)</b>		
French West Africa .....	14	366
Ghana .....	117	188
<b>Chromite</b>		
Rhodesia and Nyasaland .....	175	314
Union of South Africa .....	225	296
<b>Cobalt</b>		
Belgian Congo .....	5148	8115
Rhodesia and Nyasaland .....	655	1320
<b>Cocoa Beans</b>		
Cameroons .....	44	65
Ghana .....	266	210
Nigeria .....	112	90
<b>Coffee Beans</b>		
Angola .....	47	75
Belgian Congo .....	21	45
Ethiopia .....	31	48
French West Africa .....	45	112
Madagascar .....	31	57
Uganda .....	39	68
<b>Copper</b>		
Belgian Congo .....	176	242
Rhodesia and Nyasaland .....	281	423
<b>Diamonds (thousands of carats)</b>		
Angola .....	539	864
Belgian Congo .....	10148	15647
French West Africa .....	125	300
Ghana .....	944	2931
Sierra Leone .....	656	863
South West Africa .....	505	904
Tanganyika .....	71	391
Union of South Africa .....	1732	2702
<b>Coal</b>		
Nigeria .....	592	828
Rhodesia and Nyasaland .....	2129	3853
Union of South Africa .....	26473	34769
<b>Gold (kilograms)</b>		
Belgian Congo .....	10557	11640
Cameroons .....	226	339
French Equatorial Africa .....	1711	957
Ghana .....	21444	24584
Kenya .....	714	230
Rhodesia and Nyasaland .....	15944	16827
Tanganyika .....	2072	1975
Union of South Africa .....	362782	529716
<b>Manganese (Mn Content)</b>		
Belgian Congo .....	9	184
Ghana .....	376	309
Union of South Africa .....	332	253
<b>Rubber</b>		
Belgian Congo .....	8	34
Liberia .....	32	39
Nigeria .....	14	40
<b>Tin Concentrates (Sn content; tons)</b>		
Belgian Congo .....	13680	14510
Nigeria .....	8391	9766





## *An Analysis in Depth . . .* BALANCED APPRAISAL of the OILS —GLOBAL and DOMESTIC

By JOHN H. LIND

- ▶ Facts the oil investor should know about the short—intermediate—and long-term prospects for the oil industry . . . constructive and negative
- ▶ Outlook for the major international oils—the integrated oils . . . which are in the best position—where speculative—where weakness will persist
- ▶ Diversification trends in the various companies

**F**ROM the end of World War II until the middle of 1957, the U. S. oil industry fairly bubbled over with vim, vigor and growth. In the fall of 1957, it fell sick, and although there have been some signs of recovery during 1959, its economic health still leaves much to be desired, with no marked improvement expected at least through 1960 and probably also 1961. Although no longer as dynamic — the oil industry is certainly not moribund nor incurably ill. Its medium-term outlook — say, five to ten years from now — is quite promising, and its long-term rate of growth is likely to con-

tinue for the next twenty years or more.

We are living in a revolutionary age, making forecasting of the future a rather hazardous process. But those stockholders of oil companies that have made gains this year should reckon with the fact that these companies have astute and highly experienced management, an asset that is not listed in the balance sheet.

### **Currently — at Home**

The industry's immediate troubles are due, above all, to two factors: over-supply and a lowering in



## Comparative Earnings and Dividend Records of Leading Oil Companies

	Earnings Per Share							Recent Price	Div. Yield	Price Range 1959-60
	Cash Earn.			Dividends Per Share						
	1957	1958	1959	1957	1958	1959				
Amerada Petroleum .....	\$4.74	\$3.56	\$3.81	\$ *	\$2.00	\$2.00	\$2.00	68	2.9%	106 <sup>1</sup> / <sub>4</sub> - 64 <sup>3</sup> / <sub>4</sub>
Anderson-Prichard Oil .....	2.93	2.08	3.90	10.18	1.20	1.20	1.40	35	4.0	36 <sup>1</sup> / <sub>2</sub> - 28 <sup>1</sup> / <sub>2</sub>
Atlantic Refining .....	3.82	3.86	3.19	8.42	2.00	2.00	2.00	36	5.5	53 <sup>1</sup> / <sub>2</sub> - 35 <sup>1</sup> / <sub>2</sub>
Cities Service .....	5.63	3.57	3.96	11.90 <sup>10</sup>	2.40 <sup>2</sup>	2.40 <sup>2</sup>	2.40 <sup>2</sup>	45	5.3	64 <sup>3</sup> / <sub>4</sub> - 40 <sup>1</sup> / <sub>4</sub>
Continental Oil .....	2.38	2.40	2.85	4.34	1.60	1.60	1.70	49	3.4	69 <sup>3</sup> / <sub>4</sub> - 45 <sup>1</sup> / <sub>2</sub>
Cosden Petroleum .....	2.34	2.01	1.57 <sup>1</sup>	3.54 <sup>1</sup>	1.00	1.00 <sup>2</sup>	1.00 <sup>2</sup>	21	4.7	24 <sup>1</sup> / <sub>2</sub> - 18 <sup>1</sup> / <sub>4</sub>
Creole Petroleum .....	5.11	3.04	2.50 <sup>9</sup>	*	4.00	3.60	2.60	39	6.6	65 <sup>1</sup> / <sub>2</sub> - 37
Getty Oil .....	.93	.79	.60 <sup>9</sup>	*	4	—	3	16	—	28 <sup>1</sup> / <sub>4</sub> - 13 <sup>1</sup> / <sub>2</sub>
Gulf Oil .....	3.79	3.39	2.90	5.50	.83 <sup>2</sup>	.83 <sup>2</sup>	1.00 <sup>2</sup>	32	3.1	37 <sup>3</sup> / <sub>4</sub> - 27 <sup>1</sup> / <sub>2</sub>
Imperial Oil Ltd. ....	2.29	1.61	1.73	*	1.20	1.20	1.20	36	3.3	48 - 31 <sup>1</sup> / <sub>2</sub>
Ohio Oil .....	3.16	2.45	2.76	4.71	1.60	1.60	1.60	33	4.8	46 <sup>1</sup> / <sub>2</sub> - 32 <sup>1</sup> / <sub>2</sub>
Phillips Petroleum .....	2.80	2.45	3.03	6.58	1.70	1.70	1.70	44	3.9	52 <sup>3</sup> / <sub>4</sub> - 41
Plymouth Oil .....	2.40	1.79	.84	*	1.60 <sup>2</sup>	1.20 <sup>2</sup>	1.20 <sup>2</sup>	19	6.3	31 <sup>3</sup> / <sub>4</sub> - 17 <sup>1</sup> / <sub>4</sub>
Pure Oil .....	4.13	3.35	3.32	7.71	1.60	1.60	1.60	32	5.0	48 <sup>1</sup> / <sub>2</sub> - 31 <sup>1</sup> / <sub>2</sub>
Richfield Oil .....	7.04	5.00	6.95	*	3.50	3.50	3.50	74	4.7	111 - 68 <sup>1</sup> / <sub>4</sub>
Royal Dutch Petroleum .....	6.08	3.91	4.05	*	1.70	1.32	1.32	41	3.2	50 <sup>1</sup> / <sub>2</sub> - 39 <sup>1</sup> / <sub>2</sub>
Shell Oil .....	2.23	2.12	2.43	5.66	1.00	1.00	1.10 <sup>5</sup>	38	2.8	43 - 31 <sup>1</sup> / <sub>2</sub>
Sinclair Oil .....	5.18	3.23	3.00	7.99	3.00	3.00	3.00	45	6.6	67 <sup>3</sup> / <sub>4</sub> - 40
Skelly Oil .....	6.40	4.82	4.87	11.38	1.80	1.80	1.80	48	3.7	74 <sup>1</sup> / <sub>4</sub> - 44 <sup>1</sup> / <sub>2</sub>
Socony-Mobil Oil .....	4.56	3.24	3.35	*	2.50	2.00	2.00	38	5.2	52 <sup>1</sup> / <sub>2</sub> - 36 <sup>1</sup> / <sub>4</sub>
Standard Oil of Calif. ....	4.56	4.08	4.02	6.24	1.90	2.00	2.00	43	4.6	62 <sup>1</sup> / <sub>2</sub> - 41 <sup>1</sup> / <sub>2</sub>
Standard Oil of Indiana .....	4.24	3.29	3.90	8.69 <sup>10</sup>	1.40 <sup>8</sup>	1.40 <sup>7</sup>	1.40 <sup>6</sup>	41	3.4	52 <sup>1</sup> / <sub>2</sub> - 39 <sup>1</sup> / <sub>2</sub>
Standard Oil of N. J. ....	3.96	2.62	2.91	*	2.25	2.25	2.25	45	5.0	59 <sup>1</sup> / <sub>2</sub> - 43
Standard Oil of Ohio .....	4.79	4.82	5.02	10.44	2.50	2.50	2.50	49	5.1	64 <sup>3</sup> / <sub>4</sub> - 48
Sun Oil .....	4.17	2.73	3.48	7.70	1.00 <sup>2</sup>	1.00 <sup>2</sup>	1.00 <sup>2</sup>	52	1.9	65 <sup>3</sup> / <sub>4</sub> - 50 <sup>3</sup> / <sub>4</sub>
Sunray-Mid Continent Oil .....	3.09	2.14	2.25	*	1.26	1.32	1.32	22	6.0	29 - 21 <sup>1</sup> / <sub>4</sub>
Superior Oil Co. (Calif.) .....	44.71	39.20	45.84	*	—	3.00	4.00	1115	.3	2165 -1090
Texaco .....	5.94	5.24	5.85	9.86	2.35 <sup>2</sup>	2.40	2.60 <sup>5</sup>	78	3.3	87 <sup>3</sup> / <sub>4</sub> - 71 <sup>1</sup> / <sub>2</sub>
Texas Gulf Producing .....	1.70	.99	1.04	1.97	.60 <sup>2</sup>	.60	.60	28	2.1	39 <sup>1</sup> / <sub>4</sub> - 27
Texas Pacific Coal & Oil .....	2.01	1.61	1.85	2.25	1.00	1.00	1.00	24	4.1	39 <sup>3</sup> / <sub>4</sub> - 23 <sup>1</sup> / <sub>2</sub>
Tidewater Oil Co. ....	2.54	d .03	2.23	6.69	4	4	4	22	—	29 <sup>1</sup> / <sub>2</sub> - 20
Union Oil .....	4.95	3.18	3.35	8.97	2.40	1.70 <sup>2</sup>	1.00 <sup>2</sup>	36	2.7	53 <sup>1</sup> / <sub>4</sub> - 33 <sup>3</sup> / <sub>4</sub>

\*—Not available of time of going to press.  
d—Deficit.

†—2/1/60, W. R. Grace & Co. acquired 51% control of Cosden Pete. 11/25/59 - stockholders approved merger of Humble Oil & Ref., into S. O. of N. J.

1—Year ended 4/30/59.

2—Plus stock.

3—1/20 sh. of Spartan Aircraft Co.

4—Paid 5% in stock.

5—Current annual rate.

6—Plus 1/90 sh. of S. O. of N. J.; cash value of \$.52 per share.

7—Plus 1/200 sh. of S. O. of N. J.; cash value \$.30 per sh.

8—Plus 1/70 sh. S. O. N. J.; cash value of \$.69 per share.

9—Estimated.

10—Includes unsegregated charge-offs.

**Amerada:** Large reserves supplemented by new discoveries in Libya provide interesting long-term potential. **B1**

**Anderson-Prichard:** Experienced excellent earnings in 1959. Crude costs may permit further improvement in 1960. **C2**

**Atlantic Refining:** Major East Coast refiner faces serious problems in maintaining margins in face of domestic oversupply conditions, but provides good above-average yield on secure dividend. **B2**

**Cities Service:** Should continue to grow in line with domestic oil industry, and stock provides above-average yield. **B2**

**Continental:** Excellent management has succeeded in developing variety of avenues of growth in oil, gas and chemical industries, both at home and abroad. **A1**

**Cosden:** A small well-run company with speculative appeal based mainly on upgrading of earning power through petrochemicals, now owned 51% by W. R. Grace and Co. **C2**

**Creole:** Hard hit by increased Venezuela income taxes, this company's outlook limited to relatively gradual increase in sales and earnings above recent depressed levels. **B2**

**Getty Oil:** Owns indirect control of Skelly and Tidewater and possesses large reserves in the Middle East. Long-term speculative appeal carries element of risk. **D3**

**Gulf:** Leading world-wide oil producer is benefiting from increased domestic and foreign production and efficiency program at home. **A1**

**Imperial:** Is the major factor in the Canadian oil industry now plagued by serious oversupply problems. **B2**

**Ohio Oil:** A leading domestic oil producer which is adding significantly to crude oil reserves through Libyan exploration. **B2**

**Phillips:** Leading oil, gas and petrochemical company with above-average growth potentials. **A1**

**Plymouth:** Small refining and marketing company affected seriously by depressed margins. **D3**

**Pure Oil:** Future potentials have been increased by acquisition of Wood-ley Petroleum and by major oil and gas discoveries in Utah. **B2**

**Richfield Oil:** A leading West Coast company with attractive outlook resulting from natural gas discoveries in California and potentially important oil discoveries in Alaska. **B2**

**Royal Dutch Petroleum:** Leading international company with strong position in world-wide refining and marketing. **A2**

**Shell:** One of the most successful companies in offshore Louisiana oil and gas play with important refining and marketing systems. **A2**

**Sinclair:** Has been seriously affected by current domestic and foreign oversupply conditions and dividend cut appears possible. **C3**

**Skelly:** Owns important oil and gas reserves and is a principal marketer of LPG's, a fast-growing industry. **B2**

**Socony Mobil:** Major international company. Active in exploration reorganizing for future growth. **A2**

**Standard of California:** Has major interests in the Eastern Hemisphere and is the leading factor in the West Coast petroleum industry. **A2**

**Standard of Indiana:** One of the largest domestic refiners and marketers, this company is expanding its search for crude oil outside the U. S. **A2**

**Standard of New Jersey:** Reorganization program and new discoveries in Libya provide basis for new growth in the world's most important oil company. **A1**

**Standard of Ohio:** Excellently managed refining and marketing company in Ohio. Now attempting to spread markets beyond that state. **B2**

**Sun Oil:** East Coast refiner and marketer with growing stake in petrochemicals. **B2**

**Sunray Mid-Continent:** Medium-sized domestic marketer which provides above-average yield from secure dividend. **C2**

**Superior Oil:** Major independent oil and gas producer with excellent discovery record. New Venezuelan reserves are large but company lacks market outlets. **B2**

**Texaco:** Has registered the best record of expansion in recent years among all major oil companies. **A1**

**Texas Gulf Producing Company:** Small domestic producer with important discoveries on Libyan oil concessions. **B2**

**Texas Pacific Coal and Oil:** Medium-sized domestic oil producer with important oil reserves behind each share of outstanding stock. **C2**

**Tidewater:** Is making good recovery from severely depressed earnings in 1958. **C1**

**Union Oil of California:** New discoveries of gas add measure of interest to this poorly integrated West Coast refiner and marketer. **B2**

**RATINGS:** A—Best Grade.  
B—Good Grade.  
C—Speculative.  
D—Unattractive.

1—Improving earning trend.  
2—Sustained earning trend.  
3—Lower earning trend.

# Comprehensive Statistics

Figures are in million dollars except otherwise stated.	Atlantic Refining	Cities Service Company	Continental Oil	Gulf Oil	Ohio Oil	Phillips Petroleum
<b>CAPITALIZATION:</b>						
Long Term Debt (Stated Value) .....	\$ 178.6	\$ 430.9 <sup>2</sup>	\$ 118.8	\$ 265.9	\$ 2.8	\$ 280.2
Preferred Stocks (Stated Value) .....	\$ 35.2	—	—	—	—	—
No. of Common Shares Outstanding (000) .....	9,051	10,729	21,123	100,120	13,973	34,358
Capitalization .....	\$ 304.1	\$ 538.2	\$ 224.4	\$ 1,100.2	\$ 111.1	\$ 452.0
Total Surplus .....	\$ 390.9	\$ 544.9	\$ 376.8	\$ 1,797.1	\$ 300.0	\$ 880.7
<b>INCOME ACCOUNT: Fiscal Year Ended</b>						
Net Sales .....	12/31/59 \$ 541.2	12/31/59 \$ 994.8	12/31/59 \$ 772.0	12/31/59 \$ 3,170.8	12/31/59 \$ 344.8	12/31/59 \$ 1,163.0
Depletion, Amortization .....	\$ 47.4 <sup>1</sup>	\$ 85.2 <sup>1</sup>	\$ 2.5	\$ 260.8 <sup>1</sup>	\$ 27.2 <sup>1</sup>	\$ 122.5 <sup>1</sup>
Depreciation, Retirements, etc. ....	—	—	\$ 29.0	—	—	—
Intangibles, Devel. Costs, Losses on Leases, Drilling Costs, etc. ....	—	—	\$ 8.4	—	\$ 32.0	—
Total Income Taxes .....	—	\$ .8	\$ 18.4	\$ 651.6	\$ 1.9	\$ 55.0
Interest Charges, etc. ....	\$ 8.2	\$ 16.8	\$ 4.8	\$ 9.3	—	\$ 12.0
Balance for Common .....	\$ 30.1	\$ 42.4	\$ 60.2	\$ 290.4	\$ 38.6	\$ 104.6
Operating Margin .....	4.9%	5.3%	9.9%	29.2%	10.4%	12.3%
Net Profit Margin .....	5.5%	4.2%	7.7%	20.9%	11.1%	9.0%
Percent Earned on Invested Capital .....	5.9%	6.5%	12.4%	11.0%	9.4%	10.0%
Earned Per Common Share .....	\$ 3.19	\$ 3.96	\$ 2.85	\$ 2.90	\$ 2.76	\$ 3.05
Cash Earnings Per Share .....	\$ 8.42 <sup>3</sup>	\$ 11.90 <sup>3</sup>	\$ 4.34	\$ 5.50 <sup>3</sup>	\$ 4.71	\$ 6.58 <sup>1</sup>
<b>BALANCE SHEET: Year Ended</b>						
Cash and Marketable Securities .....	12/31/59 \$ 28.1	12/31/59 \$ 200.6	12/31/59 \$ 44.2	12/31/59 \$ 432.3	12/31/59 \$ 47.0	12/31/59 \$ 110.1
Inventories, Net .....	\$ 55.3	\$ 110.0	\$ 60.4	\$ 223.4	\$ 29.2	\$ 115.8
Receivables, Net .....	\$ 56.7	\$ 97.7	\$ 90.2	\$ 426.0	\$ 41.8	\$ 145.7
Current Assets .....	\$ 160.9	\$ 447.0	\$ 211.8	\$ 1,145.6	\$ 139.5	\$ 403.9
Current Liabilities .....	\$ 102.7	\$ 138.7	\$ 107.2	\$ 454.9	\$ 51.3	\$ 184.1
Working Capital .....	\$ 58.2	\$ 308.3	\$ 104.6	\$ 690.7	\$ 88.2	\$ 219.8
Current Ratio (C. A. to C. L.) .....	1.5	3.2	2.0	2.5	2.7	2.2
Fixed Assets, Net .....	\$ 608.8	\$ 770.6	\$ 348.6	\$ 2,087.5	\$ 304.4	\$ 1,081.3
Total Assets .....	\$ 807.8	\$ 1,294.6	\$ 787.7	\$ 3,576.3	\$ 462.5	\$ 1,579.9
Cash Assets Per Share .....	\$ 3.14	\$ 18.74	\$ 2.09	\$ 4.31	\$ 3.11	\$ 3.21
Inventories as Percent of Sales .....	10.2%	11.0%	7.8%	7.0%	8.5%	9.9%
Inventories as % of Current Assets .....	34.3%	24.6%	28.6%	19.9%	20.9%	28.6%

\*—Statistical data on other leading companies have not been included because recent balances sheet figures have not been released yet.

the growth rate of consumption. Both these factors have been widely publicized over the past two years and need only to be briefly referred to here. On the domestic scene the over-supply is due to extensive drilling programs when there was no real need for new production.

►The motivation behind some of this output was to recapture heavy costs of previously completed geological surveys which had proved up favorably.

►There was also the desire to build up domestic output to make us more independent of foreign supplies in this period of world unsettlement.

►A further production incentive is the exemption of new oil wells from the strict control on the "allowable" production of each well, administered by state conservation agencies such as the Texas Railroad Commission.

►Still another reason for over-production is the custom of many operators to drill a well to "offset" one drilled by a competitor exploiting the same underground pool. (Wider well spacing regulations and unitization of oil fields would be required to stop this traditional practice.)

Finally, the eight-month Suez crisis (October 1956-May 1957), with its temporary world-wide oil shortage, gave domestic producers such a momentum that they kept expanding even after the world oil balance had been fully restored. *The result of all this is a current excess producing capacity of crude oil in the United States of almost 3*

*million barrels daily, equal to about two-fifths of actual production.*

## Surplus Abroad

Abroad, too, there is a growing oil surplus, what with the huge Algerian and Libyan oil fields just beginning to come into production, shut-downs of Venezuelan wells, and approaching self-sufficiency of such major importers as Argentina. *The essential question underlying all this is whether it will cause a break in U.S. crude oil prices.* If it does, it would be a major calamity for the entire U.S. oil industry. However, investors need not be too panicky about this prospect, for it is not likely to happen. The pressure from abroad has been isolated to a large degree by the mandatory oil import restrictions which have been in effect for the past twelve months and will most surely continue for the time being.

At home, production allowables in Texas have been sharply restricted for a long time now (although some other oil-producing states have taken advantage of this to increase their own share of the nation's oil production). The only real threat to domestic crude oil prices comes therefore from the refining sector of the industry. This sector is traditionally under pressure to manufacture more oil products than the market can absorb. The reason for this peculiarity lies in the so-called "incremental" barrel, i.e. the additional barrel of crude oil whose

## Comparing the Position of Leading Oil Companies \*

Pure Oil	Shell Oil	Sinclair Oil	Skelly Oil	Standard Oil of Calif.	Standard Oil of Indiana	Standard Oil of Ohio	Texaco	Union Oil
\$ 88.1	\$ 133.4	\$ 347.8	\$ 3.5	\$ 175.0 <sup>2</sup>	\$ 435.8	\$ 56.1	\$ 341.8	\$ 180.7
8,700	60,573	15,565	5,746	63,224	35,770	4,848	60,541	8,204
\$ 137.5	\$ 360.6	\$ 425.6	\$ 147.2	\$ 570.1	\$ 1,330.0	\$ 123.7	\$ 1,872.2	\$ 394.0
\$ 371.0	\$ 1,097.9	\$ 89.7	\$ 216.8	\$ 1,724.8	\$ 1,267.7	\$ 212.9	\$ 1,008.1	\$ 238.6
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
\$ 499.5	\$ 1,809.9	\$ 1,232.2	\$ 257.6	\$ 1,564.8	\$ 1,956.8	\$ 368.0	\$ 2,678.0	\$ 423.8
\$ 31.4 <sup>1</sup>	\$ 195.3 <sup>3</sup>	\$ 88.3 <sup>1</sup>	\$ 37.4 <sup>1</sup>	\$ 141.0 <sup>1</sup>	\$ 171.5 <sup>1</sup>	\$ 19.1	\$ 242.8 <sup>1</sup>	\$ 46.1 <sup>1</sup>
—	—	\$ 29.2	\$ 9.9	—	—	\$ 6.4	—	—
—	—	—	—	—	—	\$ 8.3	\$ 37.5	\$ 23.0
\$(CR)2.6	\$ 39.3	\$ 10.1	\$ 5.5	\$ 26.6	\$ 21.6	\$ 9.3	\$ 59.8	\$ 3.1
\$ 3.4	\$ 4.4	\$ 14.2	\$ .1	\$ 7.7	\$ 18.2	\$ 2.2	\$ 14.5	\$ 5.7
\$ 28.9	\$ 147.4	\$ 45.5	\$ 28.0	\$ 253.6	\$ 139.6	\$ 24.3	\$ 354.3	\$ 27.5
5.2%	10.0%	6.9%	12.3%	11.1%	7.9%	9.7%	11.8%	12.5%
5.7%	7.5%	3.6%	10.9%	16.2%	7.1%	6.9%	13.2%	6.5%
6.9%	11.1%	4.6%	7.7%	11.9%	6.4%	8.9%	13.9%	6.0%
\$ 3.32	\$ 2.43	\$ 3.00	\$ 4.87	\$ 4.02	\$ 3.90	\$ 5.02	\$ 5.85	\$ 3.35
\$ 7.71	\$ 5.66	\$ 7.98	\$ 11.38	\$ 6.24 <sup>3</sup>	\$ 8.69 <sup>3</sup>	\$ 10.44	\$ 9.86	\$ 8.97
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
\$ 70.9	\$ 159.4	\$ 166.7	\$ 20.7	\$ 108.6	\$ 318.1	\$ 32.5	\$ 395.1	\$ 86.7
\$ 67.9	\$ 183.0	\$ 127.7	\$ 22.4	\$ 149.6	\$ 202.2	\$ 45.2	\$ 264.0	\$ 56.4
\$ 54.9	\$ 197.8	\$ 123.2	\$ 28.3	\$ 252.7	\$ 222.4	\$ 53.6	\$ 348.5	\$ 75.0
\$ 196.8	\$ 593.3	\$ 442.8	\$ 81.3	\$ 675.2	\$ 792.0	\$ 139.4	\$ 1,058.1	\$ 230.6
\$ 65.0	\$ 308.7	\$ 142.4	\$ 29.1	\$ 258.7	\$ 246.7	\$ 66.8	\$ 405.7	\$ 66.6
\$ 131.8	\$ 284.6	\$ 300.4	\$ 52.2	\$ 416.5	\$ 545.3	\$ 72.6	\$ 652.5	\$ 164.0
3.0	1.9	3.1	2.7	2.6	3.2	2.0	2.6	3.5
\$ 365.4	\$ 1,058.5	\$ 929.3	\$ 306.3	\$ 1,758.7	\$ 1,953.7	\$ 251.4	\$ 2,028.6	\$ 449.2
\$ 582.9	\$ 1,767.3	\$ 1,494.0	\$ 394.3	\$ 2,578.3	\$ 2,846.5	\$ 403.4	\$ 3,347.7	\$ 707.1
\$ 8.15	\$ 2.63	\$ 10.77	\$ 3.61	\$ 1.71	\$ 8.89	\$ 6.70	\$ 6.52	\$ 10.57
13.6%	9.5%	10.3%	8.7%	8.4%	10.3%	12.2%	9.8%	13.2%
34.6%	10.3%	28.9%	27.6%	22.1%	25.5%	32.5%	24.9%	24.5%

1—Includes deprec., depletion, amort., & retirement.

2—Includes subsidiaries.

3—Includes unsegregated charge-offs.

through-put increases the overall efficiency of the refinery and reduces unit costs. Since capital costs in the refining industry are very high while operating costs are relatively low, it is difficult for the refiner to resist this temptation to over-produce. The result is a lowering of products prices which in turn exerts a downward pressure on crude oil prices. However, the industry is currently making visible efforts to curb its propensity to create artificial surpluses and keep production more in line with demand. Hence, the danger of a further decline in crude oil prices are not serious at this time. Obversely, the prospect for a price increase this year or next is even slimmer.

### Evaluating Future Rate of Growth

Now let us look briefly at demand. On the average, U. S. oil demand has increased by some 5% per year, cumulative, between 1946 and 1957. In 1958 there was no increase at all and in 1959 consumption rose by just 3%. Estimates for the current year indicate again a 3% increase to about 9.5 million barrels daily. These figures imply that the sharp postwar upsurge in demand has now given way to a much more modest rate of expansion. There are sound economic reasons for this change of pace.

Up to a few years ago, oil's growth reflected not only the rise in population and per-capita consumption, but also displacement of coal from many of

its traditional markets. This has now largely come to an end.

►The dieselization of railroads is all but completed, and space heating by coal which supplied 60% of total demand at the end of World War II is now down to 10%.

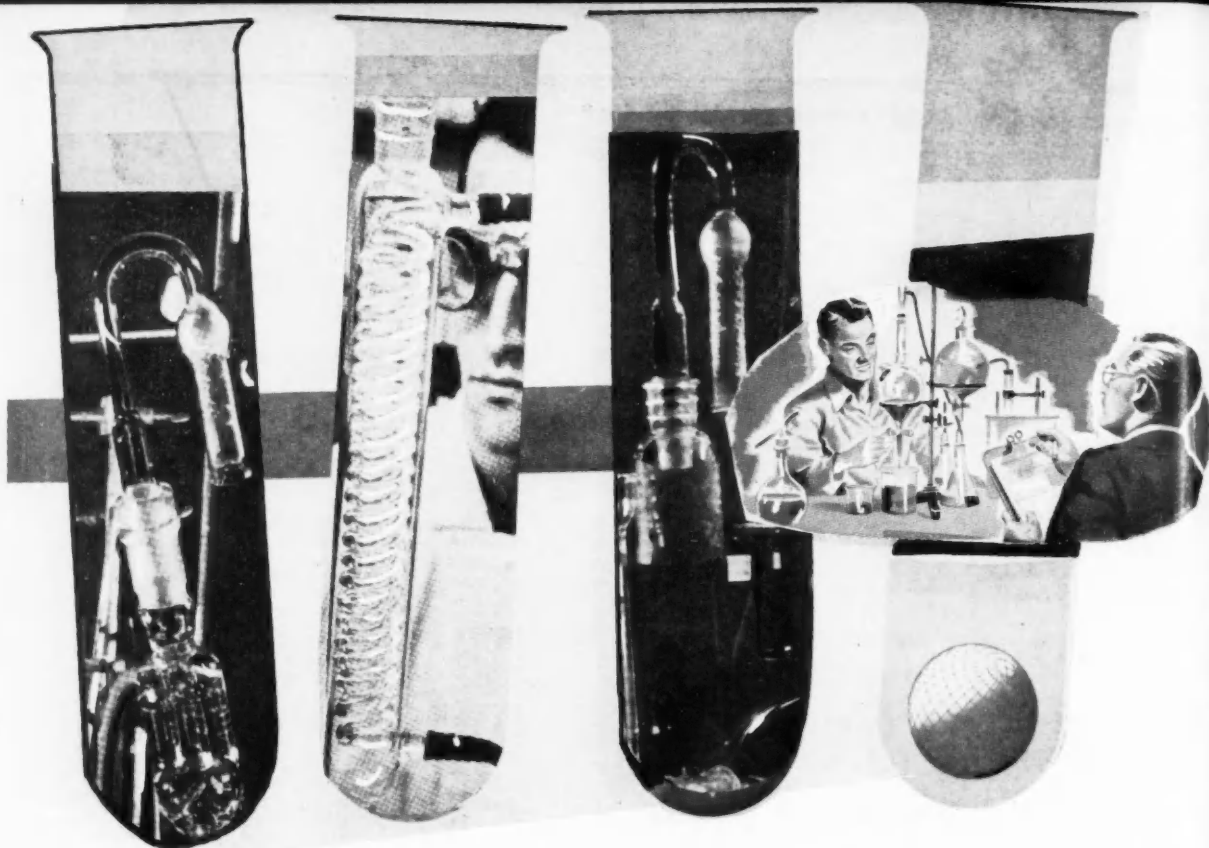
►In the gasoline field, too, the advent of compact cars, small imported cars and changes in driving habits are likely to lead to a slower rise in demand.

►Still another major factor tending in this direction is the displacement of fuel oil by natural gas in the heating market.

This is, of course, not a total loss to the oil industry, since most oil producers are also in the natural gas business. But because of the Federal Power Commission's control over most well-head prices of natural gas, plus several other factors, the industry's income from oil production is considerably higher than from a comparable volume of natural gas production. Hence, the shift from oil to gas is not benefiting the industry as a whole.

The combined effect of all these factors is an anticipated cumulative annual rise of 3-3½% over the next decade, instead of the 5% to which the industry has become accustomed. The 3-3½% is equal to the long-term annual rise in total energy demand and it is by no means an insignificant figure. But it does mean an adjustment from the previous rate of growth. And until (Please turn to page 116)





## STRONG DEMAND CONTINUES in CHEMICAL INDUSTRY

By BRYAN PYNOR

- Doing well at home and expanding abroad
- Development of new products—new markets—and new uses for established lines
- Growth position of the individual companies—those taking the lead—earnings-dividend outlook for 1960 into 1961

**T**HE chemical industry experienced a favorable expansion in sales and earnings during 1959. Most companies in the industry entered the new year with high operating rates and expectations for improved earnings in 1960. So long as the general economy functions at a higher level of activity than in 1959, it seems likely that these hopes will be fulfilled.

The year 1960 will also be important for what it reveals about several recent trends that have been taking place in the industry. First, leading American chemical companies are expected to accelerate their participation in foreign operations. This trend abroad is probably the single most important new development in the industry in recent years and it bears close watching. Second, the market for plastics, the fastest-growing segment of the industry, is likely to experience new innovations during 1960. Thirdly, diversification by many firms into new chemical fields or even into industries outside chemicals — the result of management's continuous

search for new profit avenues — appears likely to continue.

### Earnings Outlook

In 1959, earnings of many companies increased as much as 20 per cent or better. Such increases reflected not only recovery from the 1958 recession, but also the expansion of sales into new high ground, stimulated by the increase of general business to record levels. This year chemical companies will not be able to show such pronounced percentage gains in earnings as last year, if only because the comparison will not be against depressed recession results. However, total industry sales seem likely to rise to a new record of \$27 billion, as forecast by the Department of Commerce, whereas in 1959 sales were about \$25 billion.

Several companies ought to be able to carry a significant part of the advance in sales down to net income. If they do, two influences are likely to be responsible for the improvement. First of all,

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## Comparative Earnings and Dividend Records of Leading Chemical Companies

	Earnings Per Share				Dividends Per Share			Recent Price	Div. Yield	Price Range 1959-60
	1957	1958	1959	Cash Earn. Per Share 1959	1957	1958	1959			
Air Reduction .....	\$4.35	\$3.47	\$3.81	\$6.18	\$2.50	\$2.50	\$2.50	74	3.3%	91½- 66¼
Allied Chemical .....	2.19	1.72	2.51	5.27	1.50	1.50	1.80 <sup>3</sup>	51	3.5	59 - 47
American Agricultural Chemical .....	2.47 <sup>1</sup>	2.59 <sup>1</sup>	2.41 <sup>1</sup>	3.92 <sup>1</sup>	1.50	1.50	1.60 <sup>3</sup>	28	5.6	35¼- 27¼
American Cyanamid .....	2.42	2.07	2.46	4.54	1.60	1.60	1.60	50	3.2	65¼- 46½
Atlas Powder .....	5.63	3.80	5.15	9.59	2.40	2.40	2.40	93	2.5	96½- 68½
Columbian Carbon .....	2.64	2.46	3.77	7.30	2.40	2.40	2.40	47	5.1	51½- 43¼
Commercial Solvents .....	.53	.52	1.02	2.33	.92	.27	.25 <sup>4</sup>	16	1.5	18¼- 12¾
Diamond Alkali .....	2.53	2.32	3.90	7.23	1.80 <sup>4</sup>	1.80	1.80 <sup>4</sup>	54	3.3	64¾- 46
Dow Chemical .....	2.15 <sup>2</sup>	1.78 <sup>2</sup>	2.39 <sup>2</sup>	5.53 <sup>2</sup>	1.20 <sup>4</sup>	1.20	1.40 <sup>3</sup>	90	1.5	100¾- 74¼
Du Pont .....	8.48	7.24	8.92	12.27	6.50	6.00	7.00	226	3.1	273¼-202½
Food Machinery & Chemical .....	2.30	2.39	2.92	4.92	1.00	1.05	1.20	49	2.4	56¾- 40
Freeport Sulphur .....	1.73	1.74	1.93	2.54	1.00	1.00	1.20 <sup>3</sup>	23	5.2	37¾- 22¼
Grace (W. R.) & Co. ....	3.30	2.06	3.25 <sup>5</sup>	*	2.40	2.20	1.60 <sup>4</sup>	40	4.0	54½- 37½
Hercules Powder .....	2.12	2.04	2.72	4.96	1.10	1.10	1.30	65	2.0	74¾- 50
Heyden Newport Chemical .....	1.08	.62	1.19	3.35	.80	.70	.60	18	3.3	23¼- 13½
Hooker Chemical .....	1.50	1.43	1.80	3.03	1.00	1.00	1.00	34	2.9	47¾- 33¾
International Minerals & Chem. ....	3.12 <sup>1</sup>	2.09 <sup>1</sup>	2.47 <sup>1</sup>	5.60 <sup>1</sup>	1.60	1.60	1.60	29	5.5	35½- 28
Koppers Co. ....	3.86	2.62	2.10	7.77	2.50	2.05	1.60	40	4.0	51½- 37¾
Monsanto Chemical .....	1.68	1.55	2.12	5.43	1.00 <sup>4</sup>	1.00	1.00 <sup>4</sup>	44	2.2	56¼- 38¼
National Distillers & Chemical .....	2.05	1.76	2.23	3.71	1.00 <sup>4</sup>	1.00	1.20 <sup>3</sup>	30	4.0	35½- 28¼
Nopco Chemical .....	1.63	1.72	2.17	2.85	1.00	1.00	1.00 <sup>4</sup>	39	2.5	44½- 34
Olin Mathieson Chemical .....	2.67	.70	2.81	5.36	2.00	1.50	1.00	46	2.1	58¾- 41¾
Pennsalt Chemicals .....	.80	.95	1.18	2.85	.61	.61	.67	28	2.3	36 - 24¾
Pittsburgh Coke & Chemical .....	1.98	.75	1.98	5.21	1.25	1.00 <sup>4</sup>	1.00	22	4.5	26¾- 21¾
Reichold Chemicals .....	1.13	1.06	1.05	1.52	.32 <sup>4</sup>	.45 <sup>4</sup>	.57 <sup>4</sup>	23	2.4	40¼- 21
Rohm & Haas .....	14.32	13.05	20.51	34.86	2.00 <sup>4</sup>	2.00 <sup>4</sup>	4.00 <sup>4</sup>	780	.5	780 -481½
Spencer Chemical .....	4.05 <sup>1</sup>	3.09 <sup>1</sup>	4.10 <sup>1</sup>	8.78 <sup>1</sup>	2.40	2.40	2.40	69	3.5	91 - 56¾
Stauffer Chemical .....	1.86	1.99	2.41	4.11	.90 <sup>4</sup>	.90 <sup>4</sup>	1.20 <sup>3</sup>	58	2.0	71 - 52¾
Tennessee Corp. ....	2.05	1.74	2.60	6.00	1.22 <sup>4</sup>	1.22	1.37 <sup>3</sup>	37	3.8	44½- 34
Texas Gulf Sulphur .....	1.75	1.34	1.33	*	1.75	1.00	1.00	16	6.2	25¾- 16¾
Union Carbide .....	4.45	4.15	5.70	9.77	3.60	3.60	3.60	134	2.6	150½-120½
United Carbon .....	5.22	4.54	5.21	*	2.00	2.00 <sup>4</sup>	2.00 <sup>4</sup>	64	3.1	88¼- 63¾
Virginia-Carolina Chemical .....	d .65	d1.20	d .22	—	—	—	—	22	—	35¼- 19½

d—Deficit.

\*—Not available at time of going to press.

<sup>1</sup>—Year ended June 30.

<sup>2</sup>—Year ended May 31.

<sup>3</sup>—Current annual rate.

<sup>4</sup>—Plus stock.

<sup>5</sup>—Estimated.

Note: 10/27/59, Victor Chemical Works merged into Stauffer Chemical Co.

**Air Reduction:** A major supplier of industrial gases, second only to Union Carbide. Good growth prospects. **B1**

**Allied Chemical:** Major factor in basic chemicals, benefiting from vigorous management effort to up-grade products and profit margins. **A1**

**American Agricultural Chemical:** A leader in the fertilizer business with satisfactory outlook. **C2**

**American Cyanamid:** Important chemical producer with major position in drug field offering above-average growth prospects. **A1**

**Atlas Powder:** Major manufacturer of explosives now increasing diversification into new chemical fields. **B1**

**Columbian Carbon:** Leading carbon black producer diversified into oil and gas production. Provides above-average yield. **B1**

**Commercial Solvents:** After a number of years of reduced earnings, substantial recovery is expected. **C1**

**Diamond Alkali:** New research effort is benefiting this manufacturer of basic chemicals. **B2**

**Dow Chemical:** Superior management with outstanding growth record provides excellent outlook for future. **A1**

**Du Pont:** Largest in industry with major position in all important chemical lines. Also 22% interest in Gen. Motors. **A1**

**Food Machinery & Chemical:** Well-managed and fast-growing firm. 1960 may see temporary levelling off of earnings. **B1**

**Hercules Powder:** Second largest producer of explosives. Seeking to up-grade growth potentials through plastics and high energy fuels. **B1**

**Heyden-Newport:** Moderate growth in prospect principally through expansion of synthetic organic chemicals. **C1**

**Hooker Chemical:** Well-run company expanding rapidly through diversification. **B1**

**International Minerals & Chemicals:** A leading fertilizer producer offering above-average yield on secure dividend. **C2**

**Koppers Co.:** Now experiencing important earnings recovery after several years of depressed results. **B2**

**Monsanto:** Major chemical producer, with important foreign holdings. Good earnings are in prospect. **B1**

**National Distillers & Chemical Corp.:** Major liquor distiller now second largest producer of polyethylene. Good growth prospects. **B1**

**Olin Mathieson:** Widely diversified company with important new aluminum project. **B1**

**Pennsalt:** Well-managed, medium-sized chemical firm with attractive potentials in new chemical fields developed through research. **B1**

**Pittsburgh Coke & Chemical:** Improving metals demand has led to pronounced recovery in earnings. **B1**

**Reichold Chemicals:** Important producer of surface coating resins. This company is embarking on significant integration program. **B1**

**Rohm & Haas:** Top-quality firm undergoing major earnings increases. Current expansion plans should trigger further advance in income. **A1**

**Spencer Chemical:** A leading fertilizer company with a growing position in plastics. The latter provides attractive potentials for future. **B1**

**Stauffer Chemical:** Excellently managed medium-sized firm, which recently acquired Victor Chemical. **B1**

**Tennessee Corp.** Important fertilizer producer and copper fabricator. Excellent earnings record. **C1**

**Union Carbide:** Second largest chemical company with major position in plastics and petrochemicals, the two fastest growing areas in the industry. **A1**

**United Carbon:** Major carbon black producer with important new oil and gas properties. Outlook for continued improvement in earnings is good. **B1**

**Virginia-Carolina Chemical:** Currently going through management realignment and possible changes in capitalization. **C3**

**RATINGS:** A—Best Grade.

B—Good Grade.

C—Speculative.

D—Unattractive.

1—Improving earning trend.

2—Sustained earning trend.

3—Lower earning trend.

# Comprehensive Statistics Comparing the

Figures are in million dollars  
except where otherwise stated.

	Air Reduction	Allied Chemical	American Cyanamid	Atlas Powder	Columbian Carbon	Commercial Solvents	Diamond Alkali	Du Pont
<b>CAPITALIZATION:</b>								
Long Term Debt (Stated Value) .....	\$ 58.3	\$175.4	\$ 91.5	\$ 5.5	\$ 7.5	\$ 18.7	\$ 27.7	—
Preferred Stocks (Stated Value) .....	\$ .6	\$	\$ .1	—	—	—	—	\$238.8
No. of Common Shares Outstanding (000) ...	3,909	19,906	21,244	759	1,612	2,796	2,906	45,807
Capitalization .....	\$119.0	\$382.9	\$319.5	\$ 20.7	\$ 29.3	\$ 25.5	\$ 56.9	\$467.7
Total Surplus .....	\$ 74.5	\$265.4	\$186.9	\$ 25.6	\$ 41.6	\$ 34.6	\$ 61.5	\$2,146.7
<b>INCOME ACCOUNT: Fiscal Year Ended</b>								
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
Net Sales .....	\$200.6	\$719.6	\$583.5	\$ 70.7	\$ 76.1	\$ 70.3	\$137.8	\$2,144.9
Deprec., Depletion, Amort., etc. ....	\$ 10.6	\$ 55.0	\$ 43.9	\$ 3.3	\$ 5.6	\$ 3.6	\$ 9.6	\$143.0
Income Taxes .....	\$ 16.2	\$ 44.4	\$ 51.2	\$ 3.6	\$ 5.5	\$ 4.1	\$ 11.5	\$294.4
Interest Charges, etc. ....	\$ 2.3	\$ 6.6	\$ 3.5	\$ .2	\$ .4	\$ .8	\$ 1.1	—
Balance for Common .....	\$ 14.8	\$ 50.0	\$ 52.2	\$ 3.9	\$ 6.0	\$ 2.8	\$ 11.3	\$408.6
Operating Margin .....	16.4%	13.3%	16.3%	10.4%	16.5%	10.6%	16.9%	26.3%
Net Profit Margin .....	7.4%	6.9%	8.0%	5.5%	8.0%	4.0%	8.2%	19.5%
Percent Earned on Invested Capital .....	11.0%	10.5%	12.0%	9.5%	9.6%	6.9%	12.4%	16.0%
Earned Per Common Share .....	\$ 3.81	\$ 2.51	\$ 2.46	\$ 5.15	\$ 3.77	\$ 1.02	\$ 3.90	\$ 8.92
Cash Earnings Per Share .....	\$ 6.18	\$ 5.27	\$ 4.54	\$ 9.59	\$ 7.30	\$ 2.33	\$ 7.23	\$ 12.27
<b>BALANCE SHEET: Year Ended</b>								
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
Cash and Marketable Securities .....	\$ 15.5	\$ 93.9	\$ 92.6	\$ 1.7	\$ 9.4	\$ 11.6	\$ 14.6	\$346.7
Inventories, Net .....	\$ 29.2	\$102.0	\$ 99.6	\$ 9.8	\$ 11.6	\$ 13.5	\$ 19.0	\$296.4
Receivables, Net .....	\$ 25.9	\$ 78.7	\$ 69.8	\$ 10.7	\$ 10.5	\$ 13.5	\$ 17.2	\$184.7
Current Assets .....	\$ 72.2	\$274.7	\$262.0	\$ 22.8	\$ 38.4	\$ 38.6	\$ 51.9	\$842.5
Current Liabilities .....	\$ 26.1	\$ 88.2	\$100.5	\$ 7.1	\$ 12.6	\$ 11.3	\$ 24.2	\$148.5
Working Capital .....	\$ 46.1	\$186.5	\$161.5	\$ 15.7	\$ 25.8	\$ 27.3	\$ 27.7	\$694.0
Current Ratio (C. A. to C. L.) .....	2.7	3.1	2.6	3.2	3.0	3.4	2.1	5.7
Fixed Assets, Net .....	\$148.8	\$469.7	\$317.4	\$ 27.7	\$ 44.1	\$ 34.3	\$ 87.2	\$1,998.7
Total Assets .....	\$226.8	\$785.2	\$630.0	\$ 53.9	\$ 89.0	\$ 76.4	\$142.9	\$3,970.1
Cash Assets Per share .....	\$ 3.97	\$ 4.71	\$ 4.36	\$ 2.32	\$ 5.88	\$ 4.11	\$ 5.04	7 7.57
Inventories as Percent of Sales .....	14.6%	14.1%	17.0%	14.0%	15.3%	19.2%	13.7%	13.3%
Inventories as % of Current Assets .....	40.4%	37.1%	38.0%	43.3%	30.0%	34.5%	36.5%	35.1%

\*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

chemical companies are operating their facilities at very high rates of capacity. This means that unit costs are low which, in turn, means that more of the sales dollar goes to net income. Secondly, chemical prices, firm for the last several months, could start edging upward for the first time in about three years. Since the beginning of 1960, a number of increases have occurred for chlorine, phthalic anhydride and its derivatives, soda ash and calcium chloride. Other advances may well be in the offing, particularly if the high rate of capacity at which the industry is operating is sustained during the year.

Further advances in prices would clearly be a stimulant to earnings and would help reverse the recent trend of lower chemical prices. Average sales prices of many companies are below 1958 and earlier years. For example, DuPont reports that the index of its sales prices averaged about 1% lower during 1959 than in 1958; Rohm & Haas indicated that its 1959 average sales price was 1½% below 1958. As a matter of fact, the DuPont index was 6% lower than in 1954 and was only 4% above the 1947-1949 average.

## Higher Capital Expenditures

The fact that many firms are operating at near-capacity rates is responsible for a large-scale expansion of plant facilities in almost all sectors of the industry. Department of Commerce surveys indicate that the industry plans to spend \$1,640,000,000 during 1960, 33% increase from capital expen-

ditures in 1959. Most leading companies have budgeted substantial increases in capital projects. DuPont plans to invest \$220 million, over \$45 million more than last year; Allied Chemical to more than double its spending to \$85 million; Olin Mathieson's expenditures to double and reach \$60 million; Hercules Powder to boost its spending from \$21 million to \$43 million.

## Expansion of Foreign Operations

One of the most important new trends at work in the chemical industry is the rapid expansion of leading U. S. chemical companies into foreign operations. Each of the major companies, like Monsanto, DuPont, Union Carbide, Dow and Allied, are accelerating their foreign activities and so are many other firms, including American Cyanamid, and Olin Mathieson.

Probably the greatest single attraction of foreign operations is the knowledge that demand abroad is growing more rapidly than at home. The value of chemical production in six major West European countries (Britain, Germany, France, Belgium, Denmark and Norway) increased 36% between 1954 and 1958, the latest period for which data are available, while the gain in the U. S. was only about 22%. All indications are that the European market has continued to grow faster than the American since 1958.

Another spur to American expansion in Europe has been the organization of the European Economic Community, known as the Common Market. The



# Position of Leading Chemical Companies \*

Food Machinery & Chemical	Hercules Powder	Hooker Chemical	Koppers Co.	Monsanto Chemical <sup>1</sup>	National Distillers & Chem.	Olin Mathieson Chemical	Pennsalt Chemicals	Rohm & Haas	Stauffer Chemical	Union Carbide Corp.
\$ 62.9	—	\$ 62.1	\$ 20.9	\$259.0	\$142.6	\$334.4	\$ 16.8	\$ 2.4	\$ 24.6	\$446.8
\$ 6.3	\$ 9.6	\$ 5.0	\$ 15.0	\$ 10.2	\$ 43.6	—	—	\$ 6.1	\$ 5.0	—
6,943	8,432	7,336	2,294	23,156	10,385	13,365	3,893	1,117	9,119	30,097
\$138.8	\$ 27.2	\$103.8	\$ 58.8	\$315.5	\$285.2	\$401.3	\$ 28.4	\$ 30.9	\$ 75.3	\$688.4
\$108.5	\$124.2	\$ 53.2	\$113.1	\$456.7	\$166.6	\$308.9	\$ 47.6	\$113.1	\$110.3	\$1,132.2
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
\$342.9	\$293.3	\$149.8	\$240.2	\$811.4	\$575.5	\$702.0	\$ 87.5	\$215.9	\$228.0	\$1,531.3
\$ 13.6	\$ 18.4	\$ 8.8	\$ 12.4	\$ 64.1	\$ 13.4	\$ 33.8	\$ 6.4	\$ 15.8	\$ 15.3	\$121.6
\$ 16.4	\$ 25.6	\$ 12.8	\$ 5.8	\$ 58.7	\$ 25.9	\$ 33.7	\$ 5.3	\$ 26.2	\$ 20.4	\$163.5
\$ 2.1	—	\$ 1.7	\$ .7	\$ 14.5	\$ 6.1	\$ 14.6	\$ .6	\$ .2	\$ .9	\$ 17.0
\$ 20.3	\$ 22.9	\$ 13.2	\$ 4.8	\$ 61.7	\$ 23.2	\$ 37.4	\$ 4.5	\$ 22.9	\$ 22.0	\$171.6
9.8%	16.2%	18.4%	4.5%	15.5%	9.7%	11.3%	11.1%	22.1%	17.4%	21.4%
5.9%	7.9%	8.9%	2.2%	7.6%	4.3%	5.3%	5.2%	10.7%	9.7%	11.2%
11.1%	15.3%	14.1%	3.7%	12.0%	5.5%	9.9%	7.7%	16.3%	13.8%	18.4%
\$ 2.92	\$ 2.72	\$ 1.80	\$ 2.10	\$ 2.66	\$ 2.23	\$ 2.80	\$ 1.18	\$ 20.15	\$ 2.41	\$ 5.70
\$ 4.92	\$ 4.96	\$ 3.03	\$ 7.77	\$ 5.43	\$ 3.71	\$ 5.36	\$ 2.85	\$ 34.86	\$ 4.11	\$ 9.77
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
\$ 33.8	\$ 36.5	\$ 43.7	\$ 11.2	\$139.2	\$ 30.9	\$104.6	\$ 7.6	\$ 22.0	\$ 33.8	\$170.2
\$ 70.3	\$ 42.1	\$ 21.8	\$ 51.5	\$125.7	\$122.8	\$164.2	\$ 15.1	\$ 34.3	\$ 32.5	\$317.4
\$ 53.6	\$ 31.8	\$ 17.2	\$ 43.1	\$115.5	\$110.6	\$ 92.1	\$ 10.9	\$ 23.0	\$ 23.8	\$209.9
\$159.8	\$110.5	\$ 84.0	\$107.0	\$380.4	\$268.1	\$361.0	\$ 33.7	\$ 81.4	\$ 90.2	\$714.6
\$ 39.6	\$ 35.9	\$ 21.9	\$ 29.6	\$137.3	\$ 45.2	\$101.7	\$ 12.5	\$ 27.6	\$ 15.6	\$257.2
\$120.2	\$ 74.6	\$ 62.1	\$ 77.4	\$243.1	\$222.9	\$259.3	\$ 21.2	\$ 53.8	\$ 74.6	\$457.4
4.0	3.0	3.9	3.6	2.7	5.7	3.5	2.7	2.9	5.7	2.8
\$109.2	\$ 89.5	\$ 94.7	\$ 89.1	\$514.1	\$186.4	\$378.9	\$ 47.7	\$ 86.3	\$ 93.2	\$872.0
\$293.1	\$212.8	\$183.9	\$202.0	\$951.0	\$508.5	\$839.1	\$ 90.2	\$171.6	\$201.2	\$1,632.2
\$ 4.87	\$ 4.34	\$ 5.96	\$ 4.83	\$ 6.01	\$ 2.98	\$ 7.86	\$ 1.98	\$ 19.72	\$ 3.71	\$ 5.67
20.5%	14.3%	14.5%	21.4%	15.4%	21.3%	23.3%	17.3%	15.9%	14.2%	20.7%
44.0%	38.0%	25.8%	48.2%	33.0%	45.8%	45.4%	45.0%	42.1%	36.0%	44.4%

<sup>1</sup>—Includes domestic and foreign subsid., and 50% owned associated cos.

six continental countries which make up the Common Market have initiated a series of steps to eliminate customs duties and other trade barriers among themselves during the next several years. In order to maintain their positions in these markets, it seems advisable for American companies to build their own plants on the spot. In addition to the Common Market, there is a group of seven nations, including the United Kingdom, known as the European Free Trade Association, or the Outer Seven, which also proposes to reduce trade restrictions among themselves.

A company that locates its own plant in either or both of these areas, therefore, thus will be able to compete effectively in these new trade areas. In addition, it will be able to take advantage of relatively low local wage rates. Average hourly wage rates for Western European nations are considerably lower than the prevailing United States rate of about \$2.50, as the following data show:

	Hour-Rate Including Social Charges	Base Labor Rate
United Kingdom	\$1.50	\$0.91
West Germany	0.80	0.68
France	0.95	0.68
Italy	0.80	0.50
Netherlands	0.65	0.50

It is, of course, well-known that the chemical industry requires a high proportion of capital investment in relation to other factors of production such as labor. Nevertheless, these wage comparisons indicate that American companies could increase their competitive position in Europe by erecting plants

there rather than exporting from the United States.

This move of American companies into foreign operations is still just in its initial stages. It is expected to accelerate further in the future and widen out to all parts of the globe. Profit margins abroad are generally higher than in the United States, and, in time, many chemical companies will derive important earnings from foreign countries. However, it is clear that the increased earnings will not be entirely added to current income because foreign production will replace supplies formerly exported from the United States.

## The Plastics Market

The most important growth area in the chemical industry is the plastics market. During the 1958 recession, output of plastics expanded by more than 5 per cent, a truly remarkable performance in a year of declining business activity. Last year, plastics output increased further by a striking 26 per cent to 5.9 billion pounds, as shown in the following table:

PLASTICS AND RESINS PRODUCTION (In Million Pounds)			
Synthetic Plastics and Resins	Cellulose Plastics	Total	
1952	2,333	98	2,431
1953	2,777	1,299	2,906
1954	2,828	123	2,951
1955	3,739	145	3,884
1956	3,977	147	4,124
1957	4,340	148	4,489
1958	4,518	141	4,659
1959	5,730	160	5,890

(Please turn to page 118)

# PERIODIC CLASSIFICATION OF THE ELEMENTS

GROUP	I <sub>1</sub>	II <sub>1</sub>	III <sub>1</sub>	IV <sub>1</sub>	V <sub>1</sub>	VI <sub>1</sub>	VII <sub>1</sub>	VIII <sub>1</sub>	I <sub>2</sub>	II <sub>2</sub>	III <sub>2</sub>	IV <sub>2</sub>	V <sub>2</sub>	VI <sub>2</sub>	VII <sub>2</sub>	VIII <sub>2</sub>		
1	H															He		
2	Li	Be									B	C	N	O	F	Ne		
3	Na	Mg									Al	Si	P	S	Cl	A		
4	K	Ca	Sc	Ti	V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As	Se	Br	Kr
5	Rb	Sr	Y	Zr	Nb	Mo	Tc	Rh	Pd	Ag	Cd	In	Sn	Sb	Te	I	Xe	
6	Cs	Ba	La	Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg	Tl	Pb	Bi	Po	At	Rn
7	Fr	Ra	Ac	Th	Pa	U	Np	Pu	Am	Cm	Bk	Cf						

## Continued Growth Foreseen for DRUG INDUSTRY

By R. C. ERLINGSEN

- Outcome of Kefauver monopolistic charges and pricing practices—steps taken on profit margins
- What growth trend through new products—population expansion—increased longevity—foreign operations
- Position of the individual companies—earnings-dividend outlook—companies in best position

**A**FTER all is said and done, the headline-grabbing Kefauver subcommittee hearings into alleged monopolistic practices by the ethical drug industry boiled down to the matter of costs and prices charged for various products. After considering the case of alleged nonopolistic practices against the polio vaccine makers the matter was abruptly dismissed in the Federal District Court, so that it now appears that attempts to regulate this dynamic industry may have fallen through, and it is now most unlikely that restrictive legislation will be passed, as had been thought earlier.

To be sure, the widespread publicity given the high profit margins prevalent in the industry was damaging, but it is felt in important quarters that the major companies are certain to repair this unhealthy situation by agreeing to market their drugs under generic as well as brand names. If so, profit margins would undoubtedly suffer, although not drastically. Meanwhile, more rigid self-policing of prices in efforts to mitigate the public image of excessive profits seems the most likely course.

### Are Profits Excessive?

If anything, the Kefauver hearings did serve to emphasize the vital role that the ethical drug industry has played in raising the national health standard. To be sure, it was not without handsome compensation—a healthy profit margin level that exceeds the all-industry average.

The drug industry has always operated on a high



## Comparative Earnings and Dividend Records of Leading Drug Companies

	Earnings Per Share			Cash Earn.			Dividends, Per Share			Recent Price	Div. Yield	Price Range 1959-60
	1957	1958	1959 <sup>1</sup>	1957	1958	1959	1957	1958	1959			
Abbott Laboratories	\$3.30	\$3.32	\$3.32	\$4.21	\$1.80	\$1.90	\$1.90	56	3.3%	84 $\frac{3}{4}$ -52 $\frac{3}{4}$		
Allied Laboratories	4.90	2.64	2.52	3.10	1.20 <sup>4</sup>	1.05	1.30	52	2.5	64 $\frac{1}{2}$ -46 $\frac{1}{4}$		
American Home Products	5.03	5.53	6.08	6.55	3.00	3.50	4.30 <sup>5</sup>	159	2.7	193-122		
Bristol Myers	1.36	1.45	1.70	*	.66	.71	.90	42	2.1	48-33 $\frac{1}{4}$		
Carter Products	2.18	2.72	4.00 <sup>1</sup>	*	.35	.80	1.25 <sup>5</sup>	64	1.9	89 $\frac{1}{2}$ -38 $\frac{3}{4}$		
Johnson & Johnson	2.49	2.38	2.61	4.24	.68	.82	1.00 <sup>5</sup>	56	1.7	70 $\frac{3}{4}$ -49 $\frac{1}{8}$		
Lehn & Fink	3.15 <sup>2</sup>	3.26 <sup>2</sup>	3.94 <sup>2</sup>	4.66 <sup>2</sup>	1.70	1.70	2.00 <sup>5</sup>	45	4.4	57 $\frac{3}{4}$ -36		
McKesson & Robbins	2.82 <sup>3</sup>	2.65 <sup>3</sup>	2.85 <sup>3</sup>	3.15 <sup>3</sup>	1.37	1.40	1.50 <sup>5</sup>	44	3.4	50-37 $\frac{1}{4}$		
Mead Johnson & Co.	2.85	2.60	3.00 <sup>1</sup>	*	1.10	1.20	1.20	78	1.5	82 $\frac{1}{2}$ -54 $\frac{1}{4}$		
Merck & Co.	2.20	2.64	2.79	3.69	1.20	1.40	1.80 <sup>5</sup>	80	2.2	91 $\frac{3}{4}$ -67		
Norwich Pharmacal	1.04	1.14	1.35	1.40	.56	.62	.80	42	1.9	45-38 $\frac{3}{4}$		
Parke, Davis & Co.	1.89	1.89	2.09	2.37	.66	1.00	1.40 <sup>5</sup>	39	3.5	49 $\frac{1}{4}$ -36 $\frac{3}{4}$		
Pfizer (Chas.) & Co.	1.41	1.49	1.51	1.96	.70	.75	.80 <sup>5</sup>	29	2.7	43 $\frac{7}{8}$ -26 $\frac{3}{4}$		
Plough Inc.	1.66	1.88	2.00 <sup>1</sup>	*	.52	.65	.90	45	2.0	56 $\frac{1}{2}$ -34 $\frac{1}{4}$		
Rexall Drug & Chemical	1.45	1.83	2.40 <sup>1</sup>	3.17	.50	.50	.50 <sup>4</sup>	54	1.1	50 $\frac{3}{4}$ -30 $\frac{3}{4}$		
Schering Corp.	3.80	3.05	2.87	3.56	1.05	1.20	1.40	72	1.9	82-52 $\frac{3}{4}$		
Smith Kline & French Lab.	1.41	1.43	1.72	1.88	.73	.86	1.00	56	1.7	61 $\frac{7}{8}$ -45		
Sterling Drug	2.25	2.42	2.65	3.03	1.50 <sup>4</sup>	1.50	1.80	45	4.0	59 $\frac{3}{8}$ -43		
Syntex Corporation	.48	.02	d.48	*	—	—	—	33	—	36 $\frac{1}{2}$ -24 $\frac{1}{4}$		
Upjohn Co.	1.23	1.43	1.65	1.97	—	.52	.64	45	1.4	50-40		
Vick Chemical	1.95 <sup>2</sup>	2.51 <sup>2</sup>	2.71 <sup>2</sup>	3.11 <sup>2</sup>	.70	.80	1.00	80	1.2	96 $\frac{1}{2}$ -76		
Warner-Lambert Pharm., Co.	2.72	2.82	3.06	3.67	1.18 <sup>4</sup>	1.50	1.75	53	3.3	65 $\frac{1}{2}$ -48		

d—Deficit.

\*—Not available at time of going to press.

<sup>1</sup>—Estimate.

<sup>2</sup>—Year ended June 30.

<sup>3</sup>—Year ended March 31.

<sup>4</sup>—Plus stock.

<sup>5</sup>—Current annual rate.

**Abbott Laboratories:** Moderate sales growth maintained, but earnings have leveled off. Currently provides better-than-average yield on well-protected dividend. **B2**

**Allied Laboratories:** Sales and earnings continued decline from peak polio and flu vaccine years. Speculative attractions are small sales and common stock bases where research effort could have large earnings per share impact. **B3**

**American Home Products:** Excellent long term growth in sales and earnings. Present price amply discounts future growth, but long range potential remains favorable. **A1**

**Bristol Myers:** Leading factor in proprietaries with growing stake in ethicals. New products promise continued earnings growth. **B1**

**Carter Products:** Sensational earnings advances have come from mild tranquilizer, Miltown. Smaller, well established position in proprietaries. Competition and government intervention could restrict Miltown growth. **C1**

**Johnson & Johnson:** World's largest producer of surgical dressings and related items. Steady long term growth. Expansion into ethical field should widen profit margins.

**Lehn & Fink:** Sustained earnings growth with good possibilities in disinfectant field. Small sales and common stock bases but good yield and reasonable market value. **B1**

**McKesson & Robbins:** Largest U. S. drug wholesaler with fair long term growth. Reasonably valued to provide moderate yield and growth potential. **B1**

**Mead Johnson:** Important producer of nutritionals and pharmaceuticals. New dietary Metrecal, products has exciting earnings potential. **A1**

**Merck:** Vitamins, hormones, and diuretics important to this broadly based producer of bulk and packaged medicinals. Top quality research provides excellent long range potential. **A1**

**Norwich Pharmacal:** Established proprietary and ethical company with exclusive line of antibiotics, the nitrofurans. Excellent growth record but shares currently liberally valued. **B1**

**Parke, Davis:** Recent earnings uptrend can be largely attributed to Chloramphenicol, broad-spectrum antibiotic. Competing products cast some doubt over continuation of this drug's growth. **A1**

**Pfizer:** Has been hard hit by adverse publicity. Weak prices affected 1959 earnings, but well entrenched foreign position and large research outlays provide base to earnings uptrend. **B1**

**Plough:** Aggressive expansion program has diversified this proprietary company into household products and radio stations. Earnings growth has been rapid. **B1**

**Rexall:** Plastics, ethicals, proprietaries and retailing are major earnings sources. Has had unbroken earnings gains since 1951 and further expansion is expected. **B1**

**Schering:** Had dramatic gains after 1955 introduction of its meti-steroids. Competitive products reversed earnings growth for past two years. Research is broadening product line and longer range potentials are promising. **B2**

**Smith, Kline & French:** Has had fine growth record but bulk of sales and earnings attributable to mental drugs. New developments in field threaten position and shares may not be fully discounting. **A2**

**Sterling Drug:** Important proprietary manufacturer. Foreign sales important. Zimmernann Process for waste disposal offers interesting earnings potential. **B1**

**Syntex:** Excellent research organization primarily in steroid hormones. Several new products expected this year. Distribution agreements providing broader sales potential. **C1**

**Upjohn:** Well balanced line has produced excellent growth record. Prolific research is basis for continued growth. **A1**

**Vick:** Predominant in cold remedies, has large stake in ethicals and veterinaries. Good growth record amply reflected in market price. **B1**

**Warner-Lambert:** Diversified in proprietaries, ethicals, drug sundries, and cosmetics. Recent growth record is impressive and price thought not to fully reflect it. **B1**

**Ratings:** **A**—Best grade.  
**B**—Good grade.  
**C**—Speculative.  
**D**—Unattractive.

**1**—Improved earnings record.  
**2**—Sustained earnings record.  
**3**—Lower earnings record.

profit margin, but, in recent years, they have had more reason to do so, constantly faced as they have been with product obsolescence.

At any time, a highly profitable drug, representing perhaps millions of dollars of research plus capital and other investment, can be supplanted by an improved or completely new drug. In addition, successful products must carry the profit burden of those products which never realized commercial fruition.

Thus, costly research has become the cornerstone

of the industry. High drug prices and profit margins are in essence a function of product risk and ever-costlier research. Indeed, if the public is to expect continued medical advances from the drug industry, it is important that the profit incentive be present so that managements can economically justify expanded research budgets.

### Growth Trend Maintained

Pharmaceutical sales have consistently outpaced the general economy for a long period of years, and



the growth in sales figures includes not only the development in new and costlier drugs, but population growth and promotion efforts to extend the life span of the older citizens. In 1959, sales reached an estimated \$2.5 billion, up about 8% from the year before and over 700% from 1939. Profit margins more than held their own as net income rose an estimated 13%.

In contrast to some slackening in demand during the latter months of 1959, the beginning of 1960 has seen renewed vigor. First quarter comparisons should be generally favorable, as is the outlook for the rest of the year.

The longer range potential for continued sales growth, virtually free from cyclicity was amply demonstrated in the most recent recession. Growth seems assured by research, rising world-wide health standards, and increasing populations, particularly the very young and aged.

It may well be, as Merck's President Conner has stated, that profit margins over the long term will tend to erode. This is to be expected in a rigorously competitive industry consisting of over 133 manufacturing firms. However, severely reduced levels are not foreseen and growing sales volume should be an offsetting factor. The larger companies, with established reputations for quality control and dependability, should maintain their relative standings.

#### Foreign Growth Has Been Impressive

Foreign markets have become increasingly important to many drug firms and in most cases have yielded highly satisfying profits. In the years following World War II, exports to these markets were emphasized. But as difficulties encountered in serving these markets mounted, the U. S. firms decided that establishment of foreign manufacturing subsidiaries was the wiser course. The advantages in utilization of lower cost foreign labor and distribution personnel were obvious. A happy adjunct to these moves has been a closer contact with foreign research organizations which in the past have been prolific contributors to advances in medicine.

Health standards throughout the world are far below those in the U. S. Thus the opportunity for more rapid growth proportionately than in domestic markets is afforded. Since many of the diseases to be attacked have already been overcome here, this growth can in large measure be accomplished with existing products. Pfizer, Parke, Davis, Sterling Drug, Abbott Laboratories, Merck, Warner-Lambert, Vick, Schering, and Johnson & Johnson are the ranking companies in terms of foreign volume. 45% of Pfizer's sales were attributable to foreign subsidiaries in 1959.

#### Research—Best Investment for Future

The pharmaceutical industry reportedly spend \$194 million on research last year. The soundest approach to investing in this industry is to concentrate on companies where a high level, productive research effort is generously supported. Simply to measure one company against another by the total dollars expended is not completely satisfactory. Table I is therefore presented to show not only total amounts spent on research by a number of companies but with these outlays related to each

### Comprehensive Statistics

Figures are in million dollars except otherwise stated.

	Abbott Laboratories	American Home Products
<b>CAPITALIZATION;</b>		
Long Term Debt (Stated Value) .....	—	\$ 8.6
Preferred Stocks (Stated Value) .....	\$ 7.5	—
No. of Common Shares Outstanding (000) .....	3,813	7,715
Capitalization .....	\$ 36.3	\$ 16.3
Total Surplus .....	\$ 58.2	\$137.1
<b>INCOME ACCOUNT: Fiscal Year Ended .....</b>		
Net Sales .....	12/31/59 \$122.6	12/31/59 \$420.8
Deprec., Depletion, Amort., etc. ....	\$ 3.0	\$ 4.0
Income Taxes .....	\$ 11.3	\$ 51.2
Interest Charges, etc. ....	—	\$ .5
Balance for Common .....	\$ 12.6	\$ 46.6
Operating Margin .....	19.9%	22.6%
Net Profit Margin .....	10.6%	11.0%
Percent Earned on Invested Capital .....	13.7%	32.2%
Earned Per Common Share .....	\$ 3.32	\$ 6.08
Cash Earnings Per Share .....	\$ 4.21	\$ 6.55
<b>BALANCE SHEET: Year Ended .....</b>		
Cash and Marketable Securities .....	12/31/59 \$ 18.7	12/31/59 \$ 46.7
Inventories, Net .....	\$ 26.7	\$ 61.0
Receivables, Net .....	\$ 24.6	\$ 42.2
Current Assets .....	\$ 70.1	\$152.3
Current Liabilities .....	\$ 32.0	\$ 64.9
Working Capital .....	\$ 38.1	\$ 87.4
Current Ratio (C. A. to C. L.) .....	2.2	2.5
Fixed Assets, Net .....	\$ 49.4	\$ 57.9
Total Assets .....	\$126.5	\$229.6
Cash Assets Per Share .....	\$ 4.91	\$ 6.05
Inventories as Percent of Sales .....	21.8%	14.5%
Inventories as % of Current Assets .....	38.1%	40.8%

\*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

common share and to a dollar of the company's market value.

TABLE I — Research Expenditures

Company	Total (mill)	Per Share	Per \$ Mkt. Value
Abbott Labs	\$ 5.6	\$1.47	2.6¢
Bristol-Myers	5.0	0.98	2.3
Carter Products	1.0	0.38	0.6
Mead Johnson	2.8	1.55	2.0
Merck	18.6	1.75	2.2
Norwich	1.9	0.50	1.2
Parke, Davis	8.4	0.57	1.5
Pfizer	14.9	0.91	3.2
Schering	6.4	1.61	2.3
SKF	12.1	0.83	1.5
Upjohn	13.0	0.93	2.0
Vick	4.2	0.93	1.1
Warner-Lambert	3.5	0.66	1.2

Research not only enables companies to remain abreast of the competition but often uncovers entire new markets. Witness the \$200 million tranquilizer market, non-existent before 1953. Miltown was the sensational drug which enabled Carter Products, previously a relatively obscure proprietary firm, to triple its sales within two years. Advance is so rapid in ethical drugs that only 10% of today's prescriptions could have been filled 20 years ago.

#### Past Contributions of Medical Science

Medicine has made great strides since the turn of the century. Life expectancy at birth has been

## Comparing Position of Leading Drug Companies \*

Merck & Co.	Norwich Pharmacal	Parke Davis & Co.	Pfizer (Chas.) & Co.	Rexall Drug & Chemical	Schering Corp.	Smith Kline & French Lab.	Sterling Drug	Upjohn Co.	Warner Lambert Pharm.
\$ .6	\$ .5	—	\$ 29.6	\$ 29.9	\$ .1	—	\$ 23.2	—	\$ 5.7
\$ 12.0	—	—	\$ 7.0	—	\$ 8.3	—	—	—	\$ 3.5
10,617	3,815	14,830	16,368	3,865	3,981	14,531	7,926	14,056	5,261
\$ 14.3	\$ 2.9	\$ 15.8	\$ 42.1	\$ 39.5	\$ 12.4	\$ 1.6	\$ 62.8	\$ 14.0	\$ 14.5
\$169.7	\$ 18.5	\$124.4	\$142.4	\$ 62.3	\$ 51.7	\$ 68.8	\$ 52.9	\$111.4	\$ 70.9
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
\$215.9	\$ 40.6	\$191.5	\$253.6	\$227.0	\$ 80.5	\$134.8	\$209.2	\$156.9	\$182.8
\$ 7.1	\$ .6	\$ 4.1	\$ 7.2	\$ 3.5	\$ 2.3	\$ 2.3	\$ 3.0	\$ 4.6	\$ 2.9
\$ 21.6	\$ 5.1	\$ 30.6	\$ 10.3	\$ 8.4	\$ 8.5	\$ 26.8	\$ 21.9	\$ 24.3	\$ 16.3
—	\$ .1	\$ .3	\$ 5.0	\$ 1.6	—	—	\$ 1.1	—	\$ .4
\$ 29.5	\$ 5.1	\$ 30.9	\$ 24.7	\$ 8.7	\$ 11.4	\$ 25.0	\$ 21.0	\$ 23.2	\$ 16.4
22.1%	26.0%	32.5%	13.0%	8.2%	20.6%	37.4%	19.1%	30.2%	16.3%
13.9%	12.6%	16.1%	9.8%	3.9%	14.7%	18.6%	10.0%	14.8%	8.9%
17.1%	24.6%	22.1%	16.5%	22.1%	18.5%	35.2%	22.6%	18.4%	20.6%
\$ 2.78	\$ 1.35	\$ 2.09	\$ 1.51	\$ 2.30	\$ 2.87	\$ 1.72	\$ 2.65	\$ 1.65	\$ 3.06
\$ 3.69	\$ 1.40	\$ 2.37	\$ 1.96	\$ 3.17	\$ 3.56	\$ 1.88	\$ 3.03	\$ 1.97	\$ 3.67
12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59
\$ 4.6	\$ 8.3	\$ 63.8	\$ 15.5	\$ 16.1	\$ 31.7	\$ 30.9	\$ 15.6	\$ 18.2	\$ 20.0
\$ 41.0	\$ 4.0	\$ 36.8	\$ 73.9	\$ 48.7	\$ 14.4	\$ 13.5	\$ 39.8	\$ 28.6	\$ 28.8
\$ 19.0	\$ 7.3	\$ 29.6	\$ 43.9	\$ 24.4	\$ 11.5	\$ 9.8	\$ 23.2	\$ 29.5	\$ 23.6
\$10.9	\$ 20.4	\$134.3	\$133.4	\$ 89.3	\$ 58.6	\$ 55.8	\$ 85.9	\$ 76.4	\$ 76.5
\$ 4.9	\$ 6.1	\$ 56.8	\$ 54.0	\$ 33.8	\$ 15.6	\$ 25.1	\$ 31.8	\$ 18.0	\$ 29.6
\$ 16.0	\$ 14.3	\$ 77.5	\$ 79.4	\$ 55.5	\$ 43.0	\$ 30.7	\$ 54.1	\$ 58.4	\$ 46.9
3.8	3.3	2.3	2.4	2.7	3.7	2.2	2.7	4.2	2.6
\$ 7.3	\$ 6.9	\$ 63.3	\$ 97.7	\$ 33.0	\$ 20.8	\$ 30.1	\$ 41.8	\$ 66.4	\$ 38.5
\$23.3	\$ 27.5	\$204.2	\$241.5	\$135.8	\$ 80.2	\$ 96.3	\$153.6	\$144.0	\$115.9
\$ 3.26	\$ 2.19	\$ 4.30	\$ .95	\$ 4.18	\$ 7.97	\$ 2.13	\$ 1.97	\$ 1.29	\$ 3.80
8.9%	9.8%	19.2%	29.1%	21.1%	18.0%	10.0%	19.0%	18.3%	15.7%
31.3%	19.6%	27.4%	55.4%	54.5%	24.7%	24.1%	46.4%	37.6%	37.6%

extended from 47.3 years to 69.5 years. The two leading killers of 1900, tuberculosis and pneumonia, now account for less than four out of 100 deaths. Similarly, bronchitis, diphtheria, and diarrhea have disappeared from the list of the ten leading causes of death.

### New Fields to Conquer

Today research is oriented primarily toward the present major causes of death and other widespread illnesses. Heart disease and cancer alone annually claim over half of U. S. deaths. Despite the advent of several effective medications, mental illness remains an imposing problem. Nearly half of all hospital beds are occupied by mental patients. Not a killer, but a vexing, costly and as yet unbridled health hazard is the common cold.

Vast stores of knowledge have been accumulating over the years of heavy research outlays, and these should begin to bear fruit soon at a more rapid rate than in the past. It is interesting to note that as the drug makers succeed in lengthening life expectancy they are at the same time broadening an important drug using market—the aged.

### New Product Flow Speeded

This year promises to witness a continuation of an upturn noted in 1959 for new product introductions. Promising signs have appeared that inroads are being made against all the illnesses mentioned above. Several companies stand to benefit from new products, conceivably at the expense of others.

The biggest news has been in the antibiotics field where two new products bid to take important shares of existing markets.

**Bristol-Myers**, under license from the British developer, began marketing last November the first synthesized penicillin, Synicillin. It reportedly has already reached an annual sales rate of \$5 million. It is claimed that the synthetics, which **Pfizer** and **Squibb** are also marketing, may eliminate certain of penicillin's apparently inherent shortcomings.

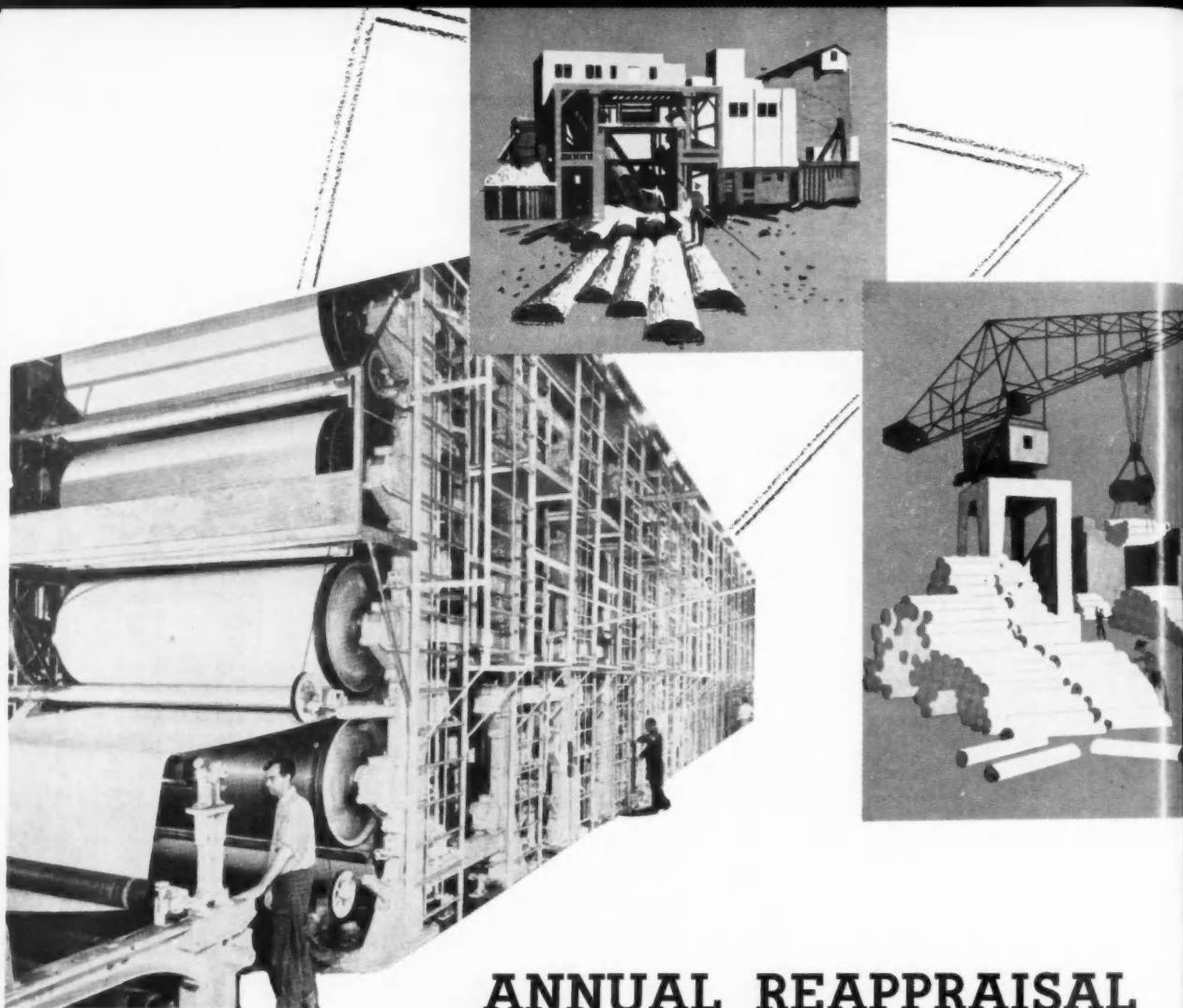
In the broad spectrum area, **Lederle's** (American Cyanamid) Declomycin is said to be making rapid headway and could offer a serious challenge to **Parke, Davis** which has over 30% of its sales from its broad spectrum, Chloromycetin.

The steroid field, a \$100 million-plus market, continues to see new products. Perhaps the most intriguing, albeit controversial, are the birth control drugs.

**Upjohn**, **Parke-Davis** and **Syntex** have all reported favorable results from extensive clinical evaluations. **Syntex** also believes that it has developed a steroid with considerably less side effects than prednisolone and hopes to market it soon.

**Upjohn**, **Schering**, and **Merck** are the leaders in this latter area. Upjohn's Orinase continues to lead the oral anti-diabetic pack with about \$20 million annual sales as U. S. Vitamin's long awaited D.B.I. has as yet failed to generate significant volume.

**Merck's** dominant position in the \$50 million diuretic market (drugs used to control body moisture) could be challenged by (Please turn to page 119)



## ANNUAL REAPPRAISAL of the PAPER COMPANIES

—With breakdown and comparison of the  
Annual Reports of the individual companies

By Burton H. Wheeler

- 1959 shows record output—but lower profit margins
- Better outlook for 1960?—companies in best position

**I**F THE opening months of 1960 can serve as a criterion, the paper industry appears headed for another record output year. Newsprint production in January and early February was the highest on record, while production of all papers was absorbing about 96 percent of the industry's capacity compared to only 89 percent a year earlier.

Coming on top of the record-breaking performance in 1959 when total output added up to 34 million tons, or over 10 percent more than in 1958, the excellent beginning this year could be reflected in higher earnings for many of the important companies in the field.

Several very recent developments point to this conclusion despite the fact that production advances

in recent years have not been carried down to net income for many of the companies. Until now the tremendous expansion of capacity has served as a heartbreaking check on earnings growth. For one thing, start-up expenses are exceptionally high in the paper industry, capital costs are higher than in most other industries, and labor costs have been rising steadily. While these costs have been rising, however, the enormous output from the newly created capacity has depressed product prices so that profit margins have been squeezed to the bone. The net result has been a below average earnings record for a large segment of the industry.

### Recent Price Increases

The most important new development in the pa-

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## Comparative Earnings & Dividend Records of Leading Paper Companies

	Earnings Per Share				Dividends Per Share			Recent Price	Div. Yield	Price Range 1959-60
	1957	1958	1959	Cash Earn. Per Share 1959	1957	1958	1959			
Champion Paper & Fibre	\$2.51	\$1.64	\$2.50 <sup>1</sup>	\$ *	\$1.20	\$1.20	\$1.20	37	3.2%	50 $\frac{3}{4}$ - 34 $\frac{1}{2}$
Container Corp. of Amer.	1.36	1.41	1.83	2.97	1.00	1.00	1.00	25	4.0	30 $\frac{3}{4}$ - 23 $\frac{1}{2}$
Crown Zellerbach	2.39	2.32	2.76	4.58	1.80	1.80	1.80	44	4.0	60 $\frac{3}{4}$ - 43 $\frac{1}{2}$
Federal Paper Board Co.	4.64	3.74	4.01	6.78	1.00	2.00	2.00	39	5.1	56 $\frac{3}{4}$ - 38
Fibreboard Paper Products	2.47	2.81	2.73	5.61	1.20 <sup>3</sup>	1.20 <sup>3</sup>	1.40 <sup>2</sup>	41	3.4	57 $\frac{3}{4}$ - 40 $\frac{3}{4}$
Great Northern Paper	2.42	.64	1.78	7.71	2.40	.60	.60	43	1.3	60 $\frac{1}{4}$ - 41 $\frac{1}{4}$
Hammermill Paper Co.	2.04	2.06	2.44	*	1.50	1.12	1.20 <sup>2</sup>	29	4.1	36 $\frac{1}{4}$ - 27 $\frac{3}{4}$
International Paper	6.17	5.46	6.21	10.58	3.00 <sup>3</sup>	3.00 <sup>3</sup>	3.00 <sup>3</sup>	113	2.6	141 $\frac{3}{4}$ -107
Kimberly-Clark Corp.	2.92	2.92	3.01	*	1.80	1.80	1.80	68	2.3	74 $\frac{3}{4}$ - 59
KVP Sutherland Paper †	2.93	2.30	2.15	3.94	2.00	2.00	1.40 <sup>2</sup>	28	5.0	36 - 27 $\frac{1}{2}$
Lily-Tulip Cup Corp.	2.06	1.88	2.07	2.97	.90	.90	1.00 <sup>2</sup>	56	1.8	63 $\frac{1}{2}$ - 48
Mead Corp.	2.85	2.30	2.66	*	1.60 <sup>3</sup>	1.62	1.70	40	4.2	51 - 39
Minnesota & Ontario Paper	2.37	1.95	2.29	4.48	1.60	1.60	1.60	29	5.5	38 - 28 $\frac{1}{2}$
Oxford Paper	3.05	2.13	1.77	5.73	2.30	1.75 <sup>3</sup>	1.00	30	3.3	38 $\frac{3}{4}$ - 26 $\frac{1}{4}$
Rayonier	1.13	.65	2.35	*	1.40	.50	.80	21	3.8	28 - 19 $\frac{1}{2}$
St. Regis Paper	2.52	2.41	3.01	5.51	1.55	1.40	1.40 <sup>3</sup>	44	3.1	56 $\frac{3}{4}$ - 38 $\frac{1}{2}$
Scott Paper	2.68	2.75	3.08	4.86	2.00	2.00	2.20 <sup>2</sup>	78	2.8	87 $\frac{3}{4}$ - 71 $\frac{1}{2}$
Standard Packaging	1.31	.75	1.50 <sup>1</sup>	*	—	—	—	27	—	39 $\frac{3}{4}$ - 26 $\frac{1}{4}$
Union Bag-Camp Paper	2.49	2.13	2.57	3.87	1.50	1.50	1.50	38	3.9	51 - 35 $\frac{3}{4}$
West Virginia Pulp & Paper	2.38	1.78	2.21	5.34	1.60	1.50	1.20	41	2.9	61 - 39

\*—Not available at time of going to press.

<sup>1</sup>—Estimated.

<sup>3</sup>—Plus stock.

†—Formerly Sutherland Paper Co.

<sup>2</sup>—Current annual rate.

**Champion Paper & Fibre:** Large company active in packaging and conventional papers. Record earnings in store. **B1**

**Container Corp. of Amer.:** Leading producer of paperboard containers. Earnings improvement in 1959 may be followed by modest gain 1960. **B1**

**Crown Zellerbach:** Leading West Coast paper company. Increasing competition may hold back full potential temporarily. **B1**

**Federal Paper Board:** Increased capacity and new merger should make for better showing in years ahead. **B1**

**Fibreboard Paper Prod.:** New capacity plus absence of labor difficulties should lead to improved earnings in 1960. **B2**

**Great Northern Paper:** Obsolete plants and equipment have cut return on invested capital in recent years. Some progress being made to reverse situation. **B2**

**Hammermill Paper:** Prime producer of fine papers should continue improvement of last few years. **B2**

**International Paper:** Major factor in industry may score record earnings in 1960. **A1**

**Kimberly-Clark:** Continuation of excellent earnings trend anticipated for major consumer goods producer. **A1**

**KVP Sutherland Paper:** Recent merger created company. After initial problems are worked out good progress expected. **B1**

**Lily-Tulip:** Major producer of paper cups and other packagings. Consumer goods should continue strong earnings trend. **A1**

**Mead Corp.:** Acquisitions and new capacity have strengthened the company. Earnings may rise in 1960, but fall short of record. **B2**

**Minnesota & Ontario Paper:** Newsprint and specialty papers account for most of output. Some betterment expected. **B2**

**Oxford Paper:** Downward trend in earnings should be halted in 1960 for this secondary producer. **B2**

**Rayonier:** Price competition may intensify in 1960. Dividends should continue at \$0.60 quarterly. **C2**

**St. Regis Paper:** Major company and price pace-setter in strong position. **B1**

**Scott Paper:** Major producer of consumer goods products should continue excellent record of recent years. **A1**

**Standard Packaging:** Aggressively managed packaging company. New products and potential acquisitions and to potential. **B1**

**Union Bag-Camp:** Past record has been unexciting. Some improvement ahead but less than most of industry. **B2**

**West Virginia Pulp & Paper:** Well managed company should benefit from Clupak and price increases. **B1**

**RATINGS:** A—Best Grade.  
B—Good Grade.

C—Speculative.  
D—Unattractive.

1—Improving earning trend.

2—Sustained earning trend.  
3—Lower earning trend.

per picture is the just announced increase in prices for kraft papers and multiwall bags. Krafts make up perhaps the largest single component of output for most of the industry, while the multiwall bags, which have numerous uses as packaging for everything from cement to fertilizers, have been among the fastest growing new products. The price increases in these two items, if they can stick, will go a long way toward shoring up sagging profit margins.

Actually these are not the first recent price increases for the industry. In 1959 sanitary papers, book papers and coated publication papers all advanced in price but their combined impact cannot begin to match the effect of the latest rise.

Can the price increase stick? It will if the statements of major executives within the industry have any meaning. St. Regis Paper led the way in raising prices. Immediately most other major companies followed suit pointing to the extremely low profit margins for all producers in these items. Competi-

tive fears had kept others from raising prices until now. Once St. Regis started the ball rolling however none of the others seem inclined to undercut prices for temporary competitive advantage.

### New Export Picture

Of perhaps more importance over the long pull, however, are the attempts being made by the government to stimulate the export of paper products. The government's interest stems from its attempts to balance our international payments structure. It is understandable that it would devote attention to the paper industry, since our large imports of pulp and newsprint, coupled with our small exports always lead to a large trade deficit. Last year, for example, we produced almost 60 million tons of pulp and paper products but exported only about 1.5 million tons. We imported 7.7 million tons for a whopping dollar deficit of over \$750 million dollars.

Until now the government's attempts to stimulate exports fell on deaf ears for two reasons. First,

there was ample demand in this country for almost all of the industry's output; and second, the industry felt it could not compete effectively against foreign operators who had financed their expansions and modernization programs with low cost American-aid funds.

Now, however, there is a real shift in thinking. Capacity is now extremely high so that larger exports could lead to more efficient operations and a greater utilization of capacity. Moreover, there is a growing recognition that per capita consumption in the United States which now stands at 435 lbs. is bound to slow down, while the rest of the world's use is beginning to grow at an accelerated rate.

Obviously it will take time to implement a joint government-industry export program, but there is a good chance that progress will be made since we have here one of those enviable situations in which it is in the best interests of both parties to cooperate.

The export situation takes on added significance since there is an excellent chance that earnings will improve this year without much change in the international trade picture. Price increases may see to that. The export stimulus, therefore, when it is felt one or two years hence, may be an important factor in prolonging the higher profits.

#### Consumer Goods Producers Lead The Way

That the industry can use higher profits stimulants can be seen from the fact that although sales have risen steadily over the past several years, only two companies, **Kimberly-Clark** and **Scott Paper** have been able to better the earnings realized in the record year 1956. Both these companies, of course, enjoy advantages over the others, since their output is channeled largely into the more stable and more lucrative consumer goods market.

**Scott Paper** ranks as one of the highest quality domestic companies in any industry. Its long record of success stems from a combination of excellent management, consistent new product development, and an enviable marketing record. Perhaps the best indication of Scott's success is the fact that each year new products account for higher and higher percentages of income. Last year, despite the company's broad list of products, new ones accounted for almost 7 percent of revenues.

In 1959 Scott fell only \$3 million short of a \$300 million sales year, a figure that is sure to be surpassed for the first time in 1960. Consumer purchasing power continues to rise, and this in combination with a steadily mounting population seems sure to stimulate further use of such everyday items as napkins, paper towels and wax papers. Hence, an advance over last year's record earnings of \$3.08 per share appears in the making. If it happens, it

### Comprehensive Statistics Comparing

Figures are in million dollars except where otherwise stated.

	Container Corp. of Amer.	Crown Zellerbach	Fibreboard Paper Products
<b>CAPITALIZATION:</b>			
Long Term Debt (Stated Value) .....	\$ 39.0	\$ 93.3	\$ 65.0
Preferred Stocks (Stated Value) .....	\$ 7.3	\$ 27.7	—
No. of Common Shares Outstanding (000) .....	10,555	13,8640	1,747
Capitalization .....	\$ 98.6	\$ 190.2	\$ 83.7
Total Surplus .....	\$ 77.6	\$ 293.7	\$ 36.7
<b>INCOME ACCOUNT: Fiscal Year Ended</b>			
12/31/59	12/31/59	12/31/59	12/31/59
Net Sales .....	\$ 322.2	\$ 527.3	\$ 119.5
Deprec., Depletion, Amort., etc. ....	\$ 11.7	\$ 24.0	\$ 5.0
Income Taxes .....	\$ 1.7	\$ 30.8	\$ 4.0
Interest Charges, etc. ....	\$ 1.0	\$ 4.0	\$ 2.9
Balance for Common .....	\$ 19.3	\$ 38.1	\$ 4.7
Operating Margin .....	12.5%	13.9%	9.3%
Net Profit Margin .....	6.1%	7.4%	4.0%
Percent Earned on Invested Capital .....	14.2%	10.6%	9.0%
Earned Per Common Share .....	\$ 1.83	\$ 2.76	\$ 2.73
Cash Earnings Per Share .....	\$ 2.97	\$ 4.58	\$ 5.51
<b>BALANCE SHEET: Year Ended</b>			
12/31/59	12/31/59	12/31/59	12/31/59
Cash and Marketable Securities .....	\$ 16.4	\$ 44.8	\$ 24.0
Inventories, Net .....	\$ 31.7	\$ 92.4	\$ 17.9
Receivables, Net .....	\$ 24.5	\$ 51.0	\$ 16.9
Current Assets .....	\$ 72.7	\$ 195.7	\$ 60.2
Current Liabilities .....	\$ 43.0	\$ 62.3	\$ 10.3
Working Capital .....	\$ 29.7	\$ 133.4	\$ 49.4
Current Ratio (C. A. to L.) .....	1.7	3.1	5.5
Fixed Assets, Net .....	\$ 141.9	\$ 333.1	\$ 69.5
Total Assets .....	\$ 226.1	\$ 567.5	\$ 134.4
Cash Assets Per Common Share .....	\$ 1.55	\$ 3.23	\$ 13.73
Inventories as Percent of Sales .....	6.0%	17.5%	15.0%
Inventories as % of Current Assets .....	43.6%	47.2%	29.7%

\*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

will be the eighth successive year in which earnings rose, but the price of the stock appears rather high at present.

**Kimberly-Clark's** record, though not quite up to Scott's outstanding performance, is enviable nevertheless. After a small dip in earnings in 1957, the company has matched Scott in outperforming the rest of the paper industry. The key to Kimberly's record, of course, is the imposing success of its two major product lines, Kleenex and Kotex. However, the company is not resting on its laurels. Paper towels, napkins and other sanitary paper products are growing in importance as revenue producers, and through a recent acquisition the company also produces half of all the cigarette paper used in the United States.

Successful marketing techniques have made household words out of Kimberly-Clark's major products. They have also created an impressive profits record. Since 1953 sales have jumped from \$163 million to over \$400 million, and per share earnings have just about doubled, climbing from \$1.85 to an estimated \$3.50 for the year ending April 30, 1960.

In view of the steady earnings trend, the current \$1.80 dividend, which has been unchanged since 1956, may be increased. The stock, however, seems to have fully discounted the outlook for 1960.

#### Mixed Results Among Major Producers

For Scott and Kimberly-Clark, the steady rise in consumer income and the growing acceptance of

## Position of Leading Paper Companies \*

	Great Northern Paper	International Paper	K V P Sutherland Paper Co. †	Lily- Tulip Cup	Minnesota & Ontario Paper	Oxford Paper Co.	St. Regis Paper	Scott Paper	Union Bag-Camp Paper	West Virginia Pulp & Paper
	\$ 40.0	—	\$ 8.4	\$ 4.6	\$ 15.8	\$ 22.7	\$ 90.6	\$ 96.7	\$ 47.2	\$ 57.1
	—	\$ 19.9	—	—	—	\$ 10.1	\$ 9.7	\$ 11.0	—	\$ 8.9
	1,139	13,333	1,138	3,198	2,573	1,006	9,363	7,919	7,382	5,139
	\$ 66.0	\$ 160.0	\$ 14.1	\$ 20.6	\$ 22.2	\$ 47.9	\$ 59.3	\$ 189.4	\$ 96.4	\$ 146.7
	\$ 35.3	\$ 646.2	\$ 33.7	\$ 32.6	\$ 70.2	\$ 30.8	\$ 254.6	\$ 188.5	\$ 108.9	\$ 90.8
12/31/59	1/3/60	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	10/31/59
	\$ 57.7	\$1,030.2	\$ 66.4	\$ 89.4	\$ 87.4	\$ 72.5	\$ 474.3	\$ 297.1	\$ 180.8	\$ 233.1
	\$ 6.1	\$ 57.4	\$ 2.5	\$ 2.9	\$ 4.6	\$ 3.4	\$ 23.0	\$ 13.7	\$ 9.6	\$ 15.6
	\$ 2.0	\$ 77.5	\$ 1.9	\$ 7.1	\$ 6.3	\$ 2.5	\$ 22.7	\$ 21.9	\$ 20.3	\$ 12.0
	\$ 1.9	—	\$ .3	\$ .2	\$ .6	\$ 1.0	\$ 3.6	\$ 3.0	\$ 1.8	\$ 2.2
	\$ 1.8	\$ 82.7	\$ 1.9	\$ 6.6	\$ 5.9	\$ 1.7	\$ 28.1	\$ 24.3	\$ 18.9	\$ 11.3
	8.3%	15.3%	6.0%	15.3%	15.5%	7.8%	10.6%	17.8%	20.4%	9.4%
	3.2%	8.1%	2.8%	7.3%	6.8%	3.1%	6.0%	8.3%	10.4%	5.0%
	3.0%	10.3%	4.9%	13.6%	7.7%	4.1%	9.1%	13.4%	12.0%	6.5%
	\$ 1.78	\$ 6.21	\$ 1.71	\$ 2.07	\$ 2.30	\$ 1.77	\$ 3.01	\$ 3.08	\$ 2.57	\$ 2.21
	\$ 7.71	\$ 10.58	\$ 3.94	\$ 2.97	\$ 4.48	\$ 5.73	\$ 5.51	\$ 4.86	\$ 3.87	\$ 5.34
12/31/59	1/3/60	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	12/31/59	10/31/59
	\$ 15.2	\$ 66.2	\$ 2.9	\$ 4.8	\$ 10.1	\$ 7.2	\$ 9.3	\$ 18.5	\$ 9.4	\$ 60.2
	\$ 9.4	\$ 157.6	\$ 13.1	\$ 21.6	\$ 19.4	\$ 9.4	\$ 66.1	\$ 50.8	\$ 17.8	\$ 23.3
	\$ 6.0	\$ 93.7	\$ 4.8	\$ 5.1	\$ 7.8	\$ 5.4	\$ 49.4	\$ 23.3	\$ 15.2	\$ 13.6
	\$ 32.3	\$ 317.6	\$ 22.1	\$ 31.6	\$ 38.5	\$ 22.4	\$ 157.0	\$ 96.4	\$ 42.5	\$ 98.3
	\$ 8.1	\$ 86.8	\$ 8.9	\$ 9.3	\$ 14.7	\$ 7.1	\$ 44.9	\$ 35.6	\$ 9.4	\$ 22.0
	\$ 24.2	\$ 230.8	\$ 13.2	\$ 22.3	\$ 23.8	\$ 15.3	\$ 112.1	\$ 60.8	\$ 33.1	\$ 76.3
	4.0	3.6	2.2	3.4	2.6	3.1	3.5	2.7	4.5	4.4
	\$ 85.1	\$ 421.4	\$ 30.2	\$ 28.4	\$ 67.2	\$ 57.5	\$ 241.4	\$ 183.0	\$ 121.7	\$ 150.0
	\$ 118.4	\$ 901.2	\$ 56.9	\$ 62.7	\$ 112.2	\$ 86.1	\$ 449.5	\$ 316.9	\$ 214.8	\$ 259.5
	\$ 14.66	\$ 4.98	\$ 2.60	\$ 1.89	\$ 3.94	\$ 7.18	\$ 3.53	\$ 2.33	\$ 1.28	\$ 11.72
	16.3%	15.3%	19.8%	24.2%	22.2%	12.9%	13.9%	8.3%	9.8%	10.0%
	29.2%	49.6%	59.9%	68.5%	50.4%	42.0%	42.1%	52.8%	41.8%	23.7%

† - Formerly Sutherland Paper Co.

paper products for household use has led to a firm price structure. For the rest of the industry, however, the increasing use of paper within the economy has been accompanied by unwieldy capacity and careful pricing. The result in most cases has been pinched profit margins despite the achievement of large sales increases.

Paradoxically, **International Paper**, the largest company in the field has had slower sales growth than many others, but firmer profit margins. This has been largely a matter of choice. Rather than concentrate its efforts of expanding unprofitable volume, International Paper has devoted its efforts to maintaining a high return on invested capital. Hence, new capacity was built only where management could be assured of obtaining a high return on the investment. The result has been the highest profit margins in the industry, per unit of sales. In the net profits column, however, the company's record is no better than the industry average in recent years. Earnings had been in a three year downward trend until they turned upward to \$6.21 per share in 1959. However, even these earnings fall well below the \$6.82 earned in 1956.

Rising prices in 1960 should lead to better results, although full benefits will be offset somewhat by dollar losses against the company's Canadian dollars. Still, unless a major recession disrupts the economy, International Paper should earn close to \$7.00, for a new record. Here the stock shows distribution at the moment, but should be watched for a buying point in this well-managed company.

**St. Regis Paper**, the company that initiated the recent price increases in kraft papers and multiwall bags has followed a different road than International Paper. Sales growth since 1952 has been large, climbing from \$182 million to \$475 million in 1959 and an estimated \$600 million in 1960. Profit margins, on the other hand have trended steadily downward, while earnings have been spotty.

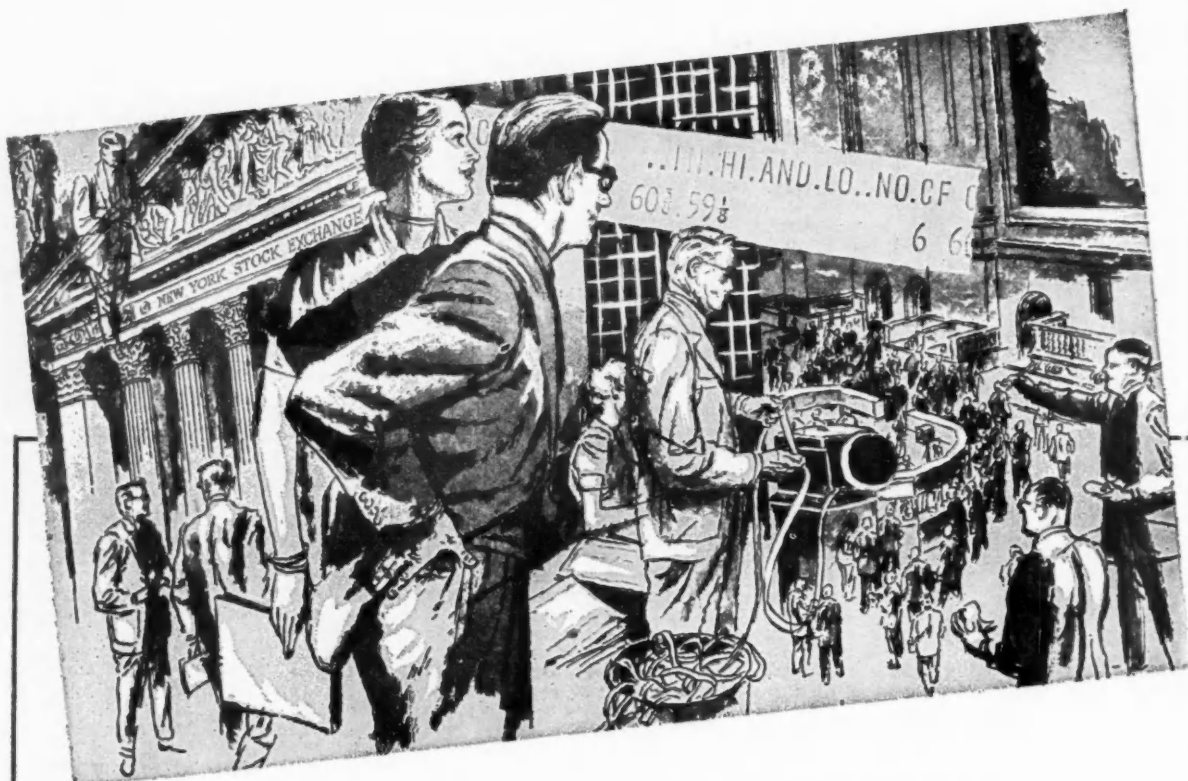
Signs of a turn for the better, however, appear in the fact that 1959 net of \$3.01 per share almost equalled the record \$3.03 in 1956. Moreover, \$60 million recently invested in new plant and equipment is now ready to begin producing sales and earnings on a regular basis. Accordingly, St. Regis should have a good year in 1960. Its investment in Consolidated Paper Corp. (Canada) should return about \$1.6 million in dividends, while new facilities coming on stream should lead to earnings of at least \$3.50 per share. The stock still seems rather speculative.

**Crown Zellerbach**, the other major producer in terms of sales has also had a spotty record. Its troubles stem from the same forces that have upset the others, plus the fact that its virtual monopoly on the West Coast has been under attack by other aggressive companies.

Last year's weakness in kraft paper prices (kraft accounts for over 30% of revenues) hurt the company considerably indicating that St. Regis' recent price action will be a welcome palliative for Crown Zellerbach's sagging profit margins.

Continued strong competition for West Coast markets will plague the (Please turn to page 120)





## FOR PROFIT AND INCOME

### Strong Stocks

Industrial stocks indicating upward tendencies at this writing include American Broadcasting-Paramount, Associated Dry Goods, Beech Aircraft, Bell & Howell, Bendix Aviation, Borden, Clark Equipment, Corning Glass, Eastman Kodak, Electric Storage Battery, Ferro Corp., General American Transportation, General Time, Gillette, Gimbel Bros., Kroger, Marshall Field, McGraw-Hill, Merck, Monterey Oil, Murphy, Norwich Pharmacal, Pepsi-Cola, Philco, Polaroid, Procter & Gamble, Reynolds Tobacco, Safeway Stores, Standard Brands, Texas Instruments, Western Auto Supply, Winn-Dixie and Woolworth.

### Under Pressure

Recent and current behavior of the following industrials is unimpressive: American Airlines, American Metal Climax, Anaconda, Armco Steel, Boeing, Chrysler, Crane, Eastern Air Lines, Firestone, Ford Motor, Goodyear Tire, Industrial Rayon, Johnson & Johnson, Kelsey-Hayes,

Kennecott Copper, Lockheed Aircraft, Masonite, Maytag, Martin, Mead Corp., Monsanto Chemical, National Acme, Oliver Corp., Oxford Paper, Pfizer, Pittsburgh Plate Glass, Raytheon, Republic Steel, Studebaker-Packard, United Air Lines, United Fruit, Vanadium and Wrigley.

### Utility Leaders

Weighing the earnings-dividend trend on the one hand and easier money rates on the other, utilities have a better chance than the industrial or rail averages of working back near, if

not exceeding, their earlier high attained in the spring of last year. Among utility issues, some in relatively strongest demand at this writing are American Electric Power, Baltimore Gas & Electric, Central & South West, Consolidated Gas Utilities, Florida Power Corp., Florida Power & Light, Illinois Power, Indianapolis Power & Light, Middle South Utilities, Northern States Power, Pacific Gas & Electric, South Carolina Electric & Gas, Southern California Edison, Southern Company, Tennessee Gas Transmission, and Texas

### INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Ekco Products Co. ....	Year Dec. 31	\$4.06	\$2.86
Certain-Teed Products .....	Year Dec. 31	1.69	.96
Standard Rwy. Equip. Mfg. ....	Year Dec. 31	.81	.13
General Cable Corp. ....	Year Dec. 31	2.71	2.19
Fansteel Metallurgical .....	Year Dec. 31	3.05	1.55
Northern Natural Gas .....	Year Dec. 31	1.92	1.62
American Bank Note Co. ....	Year Dec. 31	2.18	1.69
Minerals & Chem. Corp of Am. ....	Year Dec. 31	1.01	.65
Peoples Gas Lt. & Coke .....	Year Dec. 31	4.04	3.05
White Motor Co. ....	Quar. Dec. 31	2.05	1.53

## Utilities.

### Finance Companies

Always among the more sluggish groups and regarded primarily as income issues, shares of finance companies are well down in their 1959-1960 range. High money rates have been on the adverse side, but have eased materially since early January. Loan volume this year will rise moderately to a record level, in line with business activity and personal income. Dollar volume of automotive financing may about equal 1959's, but improvement is likely in other areas of finance-company operations, including factoring, insurance, industrial financing, etc. Earnings could better last year's record levels by perhaps 6%-8%. Thus, close to \$4.85 a share seems possible for C. I. T. Financial, suggesting a reasonable price-earnings ratio around 10.7, with the stock now at 52, yielding 5% from a secure \$2.60 dividend rate. Net of Commercial Credit might be some \$5.80-\$5.90 a share, the price-earnings ratio slightly under ten, with the stock at 57½. The \$2.80 dividend provides yield of nearly 4.9%, and the rate may be raised. Both stocks are sound investment buys for consecutive objectives.

### Small-Loan Stocks

Similar considerations apply to the small-loan stocks. Second largest in this field, Beneficial Finance has a good long-term record, with continuous dividends since formation of the company in a 1929 merger; and its 1959 results made the best relative showing in the group. Profit reached a record \$2.20 a share, up from 1958's \$2.07. It might be around \$2.40 this year, promising either a boost in the unduly low

\$1.00 dividend rate or perhaps a larger stock extra than the 2½% paid earlier this year. At 24 in a 1959-1960 range of 28½-22¾, the stock is priced at 10 times projected earnings and yields nearly 4.2% on the present cash dividend. A diversification program adds to longer-term potentials and could bring a higher average valuation of the equity than in the past. Newer activities are principally credit life reinsurance, equipment leasing and financing travel-now-pay-later airline tourist business. Risk in the stock is low, potential for appreciation over a reasonably extended time perhaps 15% to 25%.

### Five Per Cent, Plus

Kresge is the third largest variety chain. It puts more stress on the "class" of its modern stores and the quality of goods carried than do most others in this field. As a result of acceleration of the company's program of closing smaller stores and adding to large units in shopping centers, costs were higher last year. With sales up further to a record level, the operating margin narrowed to 8.9%, from 9.7% in 1958, and earnings were pared to \$2.30 a share, from \$2.50. The program now appears sufficiently advanced to permit 1960 net around \$2.75 a share; and completion of it might in time restore something like best past earning power of close to \$4.00 a share in 1948. Operating margins are, and long have been, significantly wider than those of Woolworth and Grant, recognized as two of the best-managed retailing concerns. At 30¾ in a 1959-1960 range of 35-29½, the stock is priced around 11 times projected 1960 earnings and yields over 5.2% on a secure \$1.60 dividend, which should in time move up

somewhere within the 1954-1948 payment range of \$1.80-\$2.50. Thus, the stock offers a good return, plus basis for moderate appreciation.

### Aluminum

There is, of course, strong growth in uses of aluminum; and demand could double again within the 1960's. Trouble is that producing capacity so far keeps on outgrowing existing needs. There is keen price competition especially in fabrications. The major companies had their best margins and share earnings as far back as 1955 or 1956. Most of the stocks remain under market peaks reached in 1956. However, if you are interested in holding or buying aluminum equities at fancy prices, Reynolds Metals is the best of them. It has made the best showing on the combined basis of margins, profits and action of the stock; and the price-earnings ratio is the least extreme in the group. Net income reached a new peak in 1959. Per-share profit rose over 11% to \$2.42. For 1960 it may approximate 1956's record \$2.57 on fewer shares. That means a price-earnings ratio around 24. The stock's high was 81¾ in 1959, against 1956's 55½. It is now at 62, yielding a nominal 0.8% on a 12½ cent quarterly dividend. Yields on all aluminum stocks are low, though some approach 2%. You don't buy or hold any of these issues for yield. Most of them sell at 30 or more times earnings.

### Tire Stocks

Deep corrections in tire-and-rubber stocks have left Firestone, Goodrich and Goodyear priced in the vicinity of 15 times likely 1960 earnings and by no means cheap. Compared with the pre-recession year 1957, Goodrich has lost ground in margins and profits, while gains of Firestone and Goodyear have been limited. Margins of U. S. Rubber remain moderately under those of the three other companies, but they have moved up significantly, both in 1959 and 1958, as a result of greater producing efficiency and other steps to strengthen the company's position. Making the best comparative showing among the Big Four, earnings reached

(Please turn to page 121)

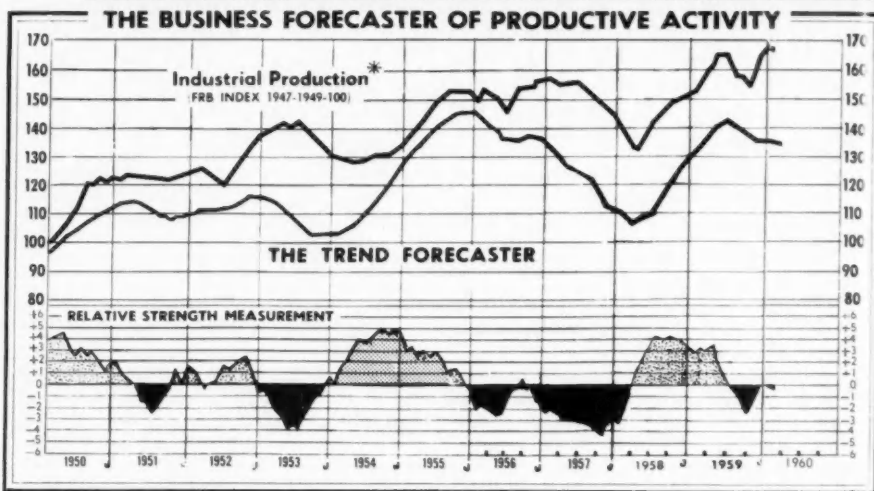
### DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Ingersoll-Rand Co. ....	Year Dec. 31	\$4.06	\$4.35
Trane Co. ....	Year Dec. 31	2.36	2.82
Neptune Motor Co. ....	Quar. Dec. 31	.53	.60
N. Y. Shipbuilding ....	Year Dec. 31	1.27	3.69
American Seating Co. ....	Year Dec. 31	2.93	3.10
Chance Vought Aircraft ....	Year Dec. 31	4.12	7.55
Foote Mineral Co. ....	Year Dec. 31	.91	1.72
Texas Eastern Transmission ....	Year Dec. 31	2.02	2.33
Cream of Wheat Corp. ....	Year Dec. 31	2.14	2.40
Buffalo Forge Co. ....	Year Nov. 30	2.12	2.31

# the Business A

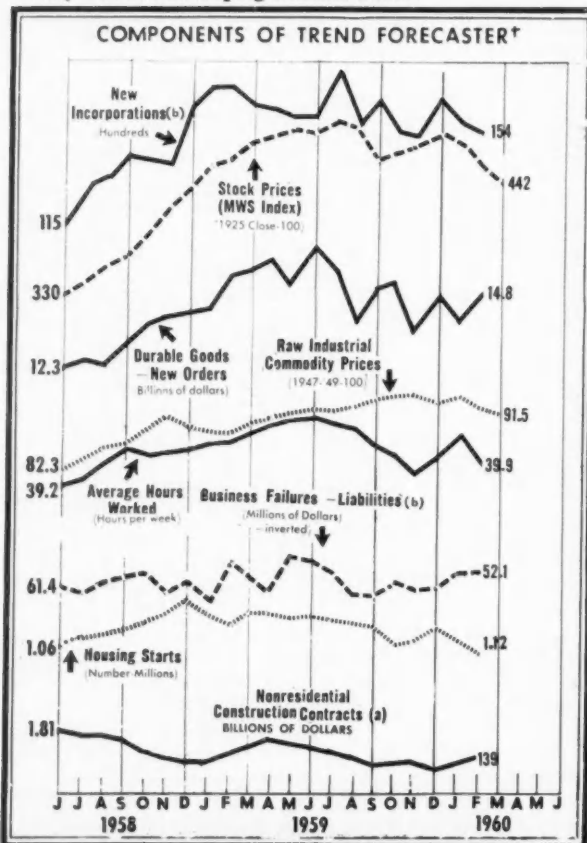
## Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



\* Revised Index

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†) — Seasonally adjusted except stock and commodity prices.

(a) — Computed from F. W. Dodge data.

(b) — Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our *Business Trend Forecaster* of increasing usefulness both from the investment and business standpoints.

### Current Indications of the Forecaster

As the first quarter drew to a close, the components of the Forecaster were still following divergent trends. In the latest month, declines were registered for five of the indicators. These included industrial raw materials, which were back to their level of a year ago, stock prices, whose average for March was well under that of February, housing starts, which have fallen steadily this year, hours worked, which dipped from January's advanced levels and new incorporations, which have moved irregularly lower. Three of the indicators have strengthened recently, and these are new orders, nonresidential construction contracts and business failures (inverted).

On the basis of the most recent data, the Relative Strength Measure was easing slightly from the zero mark which it had reached in January. At -0.5 in March it was signalling that business would remain high in the months ahead, although mixed trends would continue to predominate.



# s Analyst

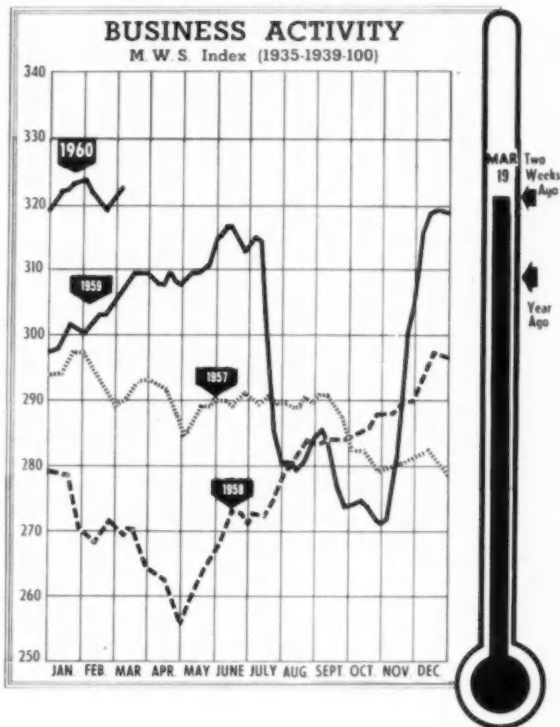
## CONCLUSIONS IN BRIEF

**PRODUCTION**—Decline in output will tend to accelerate in the weeks ahead. Steel production expected to fall to 80% of capacity by early May, where it would approximate the level of consumption. Look for further cutbacks in auto output, as dealers' stocks continue to rise.

**TRADE**—Retail sales holding well, considering this year's late Easter. Retail demand to remain high — and stable — through second quarter at least.

**MONEY & CREDIT**—Money rates nervous after sharp drop from early-1960 highs. Federal Reserve now exerting less restraint on credit, until there is more certainty regarding the pace and direction of the economy.

**COMMODITIES**—Farm products and foods push higher as a result of abnormal winter weather. General run of commodities show firmness as demand remains high. Wholesale prices to continue firm tendencies in the months ahead.

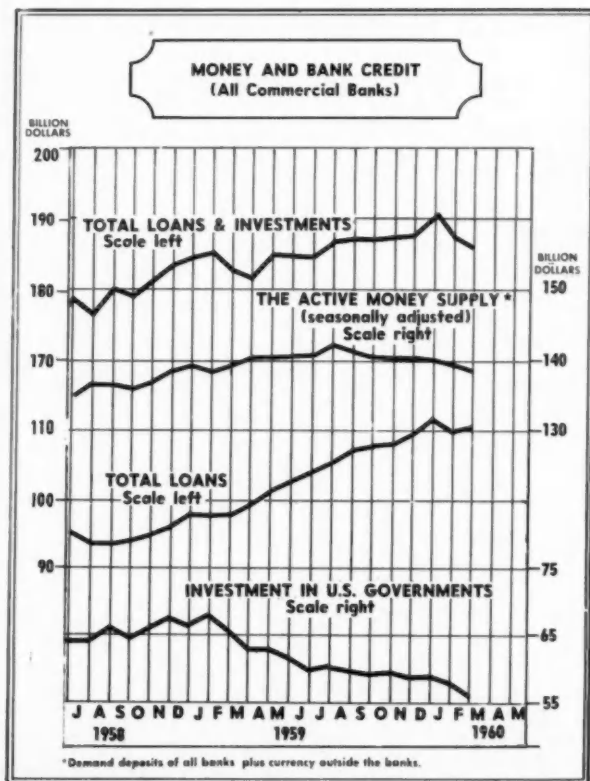


**O**BSERVERS who were expecting a spectacular resurgence of business with the advent of Spring, are in for a bit of a letdown in the weeks ahead. The vernal season can normally be counted on, of course, to give a lift to most lines of activity, but the salient test is whether the improvement exceeds seasonal expectations. On that basis, there is little warrant to expect any marked uptrend in the economy as a whole.

What we will experience, instead, is a continuation of the mixed economic trends that characterized the opening months of the year. These conflicting tendencies have been so marked in recent weeks that even closely related series have been going in opposite directions. Thus, in February, employment rose to a record high but hours worked per week have been reduced; personal income advanced but weekly earnings were lower; sales remained high but new orders declined. This is only an illustration of the divergent currents which will continue to give the weary analyst a hard time of it in the weeks ahead.

Beneath today's conflicting movements, some important clues to coming events are emerging. These mixed trends point up the fact that we are now in the "mature" phase of the business upturn. This is a period when leading indicators (such as new orders) begin to turn down, while sectors which are normally late-starters (capital spending for instance), move ahead at an accelerated pace. The true picture, has also been distorted by the sharp

*(Please turn to the following page)*



# Essential Statistics

## THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
<b>INDUSTRIAL PRODUCTION* † (FRB) ....</b>	1947-'9-100	Feb.	167	168	155
Durable Goods Mfr. ....	1947-'9-100	Feb.	179	181	160
Nondurable Goods Mfr. ....	1947-'9-100	Feb.	158	159	150
Mining ....	1947-'9-100	Feb.	126	128	126
<b>RETAIL SALES*</b>	\$ Billions	Feb.	18.1	18.1	17.6
Durable Goods ....	\$ Billions	Feb.	6.0	5.9	5.9
Nondurable Goods ....	\$ Billions	Feb.	12.1	12.2	11.7
Dep't Store Sales ....	1947-'9-100	Feb.	140	146	140
<b>MANUFACTURERS'</b>					
New Orders—Total* ....	\$ Billions	Jan.	30.7	29.7	28.5
Durable Goods ....	\$ Billions	Jan.	14.7	14.2	13.9
Nondurable Goods ....	\$ Billions	Jan.	16.0	15.5	14.6
Shipments* ....	\$ Billions	Jan.	30.8	30.8	28.1
Durable Goods ....	\$ Billions	Jan.	15.0	15.4	13.5
Nondurable Goods ....	\$ Billions	Jan.	15.8	15.4	14.6
<b>BUSINESS INVENTORIES, END MO.* ..</b>	\$ Billions	Jan.	90.4	89.4	85.6
Manufacturers' ....	\$ Billions	Jan.	53.2	52.4	49.5
Wholesalers' ....	\$ Billions	Jan.	12.7	12.6	11.9
Retailers' ....	\$ Billions	Jan.	24.5	24.3	24.2
Dept. Store Stocks ....	1947-'9-100	Jan.	160	161	152
<b>CONSTRUCTION TOTAL</b>	\$ Billions	Feb.	3.6	3.7	3.5
Private ....	\$ Billions	Feb.	2.7	2.7	2.5
Residential ....	\$ Billions	Feb.	1.4	1.5	1.4
All Other ....	\$ Billions	Feb.	1.3	1.2	1.1
Housing Starts*—a ....	Thousands	Feb.	1115	1210	1403
Contract Awards, Residential—b....	\$ Millions	Feb.	988	927	1073
All Other—b ....	\$ Millions	Feb.	1252	1266	1234
<b>EMPLOYMENT</b>					
Total Civilian ....	Millions	Feb.	64.5	64.0	62.7
Non-Farm * ....	Millions	Feb.	52.2	52.3	50.3
Government * ....	Millions	Feb.	8.3	8.3	8.1
Trade * ....	Millions	Feb.	11.4	11.4	11.0
Factory * ....	Millions	Feb.	12.5	12.5	11.9
Hours Worked ....	Hours	Feb.	39.9	40.3	40.0
Hourly Earnings ....	Dollars	Feb.	2.28	2.29	3.20
Weekly Earnings ....	Dollars	Feb.	90.97	92.29	88.0
<b>PERSONAL INCOME*</b>	\$ Billions	Feb.	393	393	371
Wages & Salaries ....	\$ Billions	Feb.	269	268	250
Proprietors' Incomes ....	\$ Billions	Feb.	59	59	59
Interest & Dividends ....	\$ Billions	Feb.	38	38	34
Transfer Payments ....	\$ Billions	Feb.	27	27	26
Farm Income ....	\$ Billions	Feb.	15	16	17
<b>CONSUMER PRICES</b>	1947-'9-100	Feb.	125.6	125.4	123.7
Food ....	1947-'9-100	Feb.	117.4	117.6	118.2
Clothing ....	1947-'9-100	Feb.	108.3	107.9	106.7
Housing ....	1947-'9-100	Feb.	130.8	130.7	128.5
<b>MONEY &amp; CREDIT</b>					
All Demand Deposits* ....	\$ Billions	Feb.	110.4	111.3	111.6
Bank Debits*—g ....	\$ Billions	Feb.	99.7	92.0	89.4
Business Loans Outstanding—c....	\$ Billions	Feb.	31.1	30.8	31.4
Installment Credit Extended* ....	\$ Billions	Jan.	4.2	4.0	3.9
Installment Credit Repaid* ....	\$ Billions	Jan.	3.8	3.8	3.5
<b>FEDERAL GOVERNMENT</b>					
Budget Receipts ....	\$ Billions	Feb.	7.3	4.9	6.6
Budget Expenditures ....	\$ Billions	Feb.	6.2	6.2	6.3
Defense Expenditures ....	\$ Billions	Feb.	3.7	3.5	3.6
Surplus (Def) cum from 7/1 ....	\$ Billions	Feb.	(5.8)	(6.9)	(13.0)

## PRESENT POSITION AND OUTLOOK

spurt in production to make up for strike-induced shortages, which left a wide gap between output and basic demand. Inventories have now been rebuilt to the point where production must be cut back, especially in the steel and auto industries and this will also entail some decline in employment and labor income.

The prospect is not entirely adverse, however. Most analysts are counting on strong basic demand—in the form of increased capital spending, expanding exports and high consumer outlays—to take up much of the slack. Reinforcing these constructive aspects, is the Federal Reserve's recent shift in credit policy from "tight" to "moderate" restraint, as evidenced by the reduction in the net borrowed reserves of the member banks and the concomitant easing of money rate. Businesses which found it difficult or unprofitable to borrow at the advanced rates that prevailed some months ago, will now be able to proceed with postponed spending plans and home buying may also be encouraged.

In the next few weeks, data on consumer demand for hard goods and the trend of new orders for machinery (which foreshadows actual capital spending), will enable us to get a pretty good idea of whether demand factors are coming up to expectations. If they do, they will impart enough vigor to the economy to assure a sustained level of business over coming months.

\* \* \*

**U. S. BALANCE OF PAYMENTS** — it turned up sharply in the first quarter, to the relief of the monetary authorities, who were worrying about a possible run on the dollar. Government experts estimate that this country's deficit in its foreign payments' balances, will be cut to about \$100 million, on a seasonally adjusted basis, in the January-March period, versus a \$513 million deficit in the last three months of 1959. The main source of improvement in the most recent period was a healthy increase in our exports and further gains are expected in subsequent

## and Trends

### QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959			—1958
	Quarter IV	Quarter III	Quarter II	Quarter IV
<b>GROSS NATIONAL PRODUCT</b> .....	483.5	478.6	484.5	457.1
Personal Consumption .....	317.0	313.3	311.2	299.1
Private Domestic Invest. ....	69.7	67.0	77.5	62.3
Net Exports .....	-0.6	0.0	-1.8	5.8
Government Purchases .....	97.4	98.4	97.7	96.5
Federal .....	52.7	53.6	53.9	54.2
State & Local .....	44.7	44.8	43.8	42.2
<b>PERSONAL INCOME</b> .....	386.8	381.0	381.1	366.3
Tax & Nontax Payments .....	46.1	45.8	45.8	43.4
Disposable Income .....	340.8	335.2	335.3	322.9
Consumption Expenditures .....	317.0	313.3	311.2	299.1
Personal Saving—d .....	23.7	21.9	24.1	23.7
<b>CORPORATE PRE-TAX PROFITS</b> .....		46.4	52.6	44.6
Corporate Taxes .....		22.6	25.6	21.9
Corporate Net Profit .....		23.8	27.0	22.7
Dividend Payments .....			13.0	12.0
Retained Earnings .....			14.0	10.7
<b>PLANT &amp; EQUIPMENT OUTLAYS</b> .....	34.4	34.0	32.5	30.0

### THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Mar. 19	3217	322.8	309.4
MWS Index—per capita*	1935-'9-100	Mar. 19	233.9	234.6	230.2
Steel Production .....	% of Capacity	Mar. 26	89.6	91.5	92.9
Auto and Truck Production .....	Thousands	Mar. 26	176	184	155
Paperboard Production .....	Thousand Tons	Mar. 19	321	319	306
Paperboard New Orders .....	Thousand Tons	Mar. 19	302	292	280
Electric Power Output*	1947-'49-100	Mar. 19	274.0	276.6	250.0
Freight Carloadings .....	Thousand Cars	Mar. 19	581	560	603
Engineering Constr. Awards ....	\$ Millions	Mar. 24	454	374	355
Department Store Sales .....	1947-'9-100	Mar. 19	129	115	137
Demand Deposits—c .....	\$ Billions	Mar. 16	60.3	59.6	61.2
Business Failures—s .....	Number	Mar. 17	302	290	292

\*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Revised Index. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

### THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959-'60		1959		1960		(Nov. 14, 1936 Cl.—100)		High	Low	Mar. 18	Mar. 25
	High	Low	Mar. 18	Mar. 25	High	Low	High Priced Stocks	Low Priced Stocks				
Composite Average	492.4	436.9	442.7	447.8			306.7	268.4	275.6	279.1		
4 Agricultural Implements .....	492.4	356.2	368.1	376.7	5 Gold Mining .....	1064.2	853.0	1054.0	1054.0			
3 Air Cond. ('53 Cl.—100) .....	137.2	110.5	113.5	117.3	4 Investment Trusts .....	190.6	151.8	153.5	153.5			
9 Aircraft ('27 Cl.—100) .....	1375.1	950.3	983.5	950.3L	3 Liquor ('27 Cl.—100) .....	1624.8	1248.7	1263.7	1308.8			
7 Airlines ('27 Cl.—100) .....	1429.4	835.7	846.7	835.7	7 Machinery .....	563.2	452.4	481.4	486.7			
4 Aluminum ('53 Cl.—100) .....	594.5	392.0	448.3	474.4	3 Mail Order .....	467.5	253.1	391.5	400.6			
5 Amusements .....	252.6	200.5	227.5	238.9	4 Meat Packing .....	277.1	204.4	262.2	264.9			
5 Automobile Accessories .....	541.9	413.4	476.9	476.9	4 Mtl. Fabr. ('53 Cl.—100) .....	211.2	181.3	188.6	188.6			
5 Automobiles .....	156.8	93.7	120.0	121.6	9 Metals, Miscellaneous .....	409.6	335.7	343.2	346.9			
3 Baking ('26 Cl.—100) .....	41.3	28.5	35.0	36.0	4 Paper .....	1310.5	994.8	1071.3	1058.6			
4 Business Machines .....	1395.5	1172.3	1185.5	1238.1	16 Petroleum .....	885.5	639.1	661.7	676.7			
6 Chemicals .....	835.5	689.4	721.4	721.4	16 Public Utilities .....	365.4	334.9	352.0	352.0			
4 Coal Mining .....	37.8	28.1	32.5	32.1	6 Railroad Equipment .....	104.1	86.9	93.8	94.8			
4 Communications .....	229.8	164.6	216.0	225.2	18 Railroads .....	78.2	61.3	62.0	62.7			
9 Construction .....	178.9	155.6	164.1	165.8	3 Soft Drinks .....	726.6	599.8	719.3	719.3			
5 Container .....	1142.6	970.7	991.6	991.6	11 Steel & Iron .....	476.4	385.9	395.2	399.8			
5 Copper Mining .....	344.6	280.7	308.2	304.9	4 Sugar .....	144.7	72.2	72.2	77.8			
2 Dairy Products .....	163.1	138.8	153.0	159.1	2 Sulphur .....	863.3	563.1	563.1	563.1			
5 Department Stores .....	143.8	119.1	140.9	142.4	11 TV & Electron. ('27—100) .....	111.3	65.6	99.8	102.0			
5 Drugs-Eth. ('53 C.—100) .....	475.4	379.5	404.3	413.1	5 Textiles .....	259.6	176.6	200.9	198.7			
5 Elect. Eqp. ('53 Cl.—100) .....	369.9	268.8	332.9	336.6	5 Tires & Rubber .....	281.8	212.0	217.1	217.1			
3 Finance Companies .....	769.7	648.8	668.9	662.2	5 Tobacco .....	194.9	172.9	184.3	188.1			
5 Food Brands .....	470.0	406.3	423.8	423.8	3 Variety Stores .....	371.2	331.4	363.9	367.5			
3 Food Stores .....	279.6	244.4	265.6	268.2	14 Unclassif'd ('49 Cl.—100) .....	295.1	239.8	271.4	271.4			

L—New Low for 1959-1960.

### PRESENT POSITION AND OUTLOOK

quarters, so that the payments' deficit in 1960 may drop to \$2.5 billion, from \$3.7 billion last year.

Although the gain in exports is a step in the right direction, we are not out of the woods as yet by a long shot. Our payments to foreign countries are still running well above our receipts from them and some of this year's export gains may be of a temporary nature. Meanwhile, with foreigners holding \$19.3 billion of short-term assets in this country, only slightly less than our \$19.5 billion gold stock, pressure against the dollar can mount quickly.

\* \* \*

**GROSS NATIONAL PRODUCT** — The nation's output of goods and services approached the \$500 billion mark in the first quarter, according to Government estimates, a rise of about \$16 billion from the previous quarter and biggest gain we have experienced in almost ten years. The spurt was triggered however, by the rush to make up for output lost during the steel strike, and GNP will level out or even drop off slightly in the months ahead.



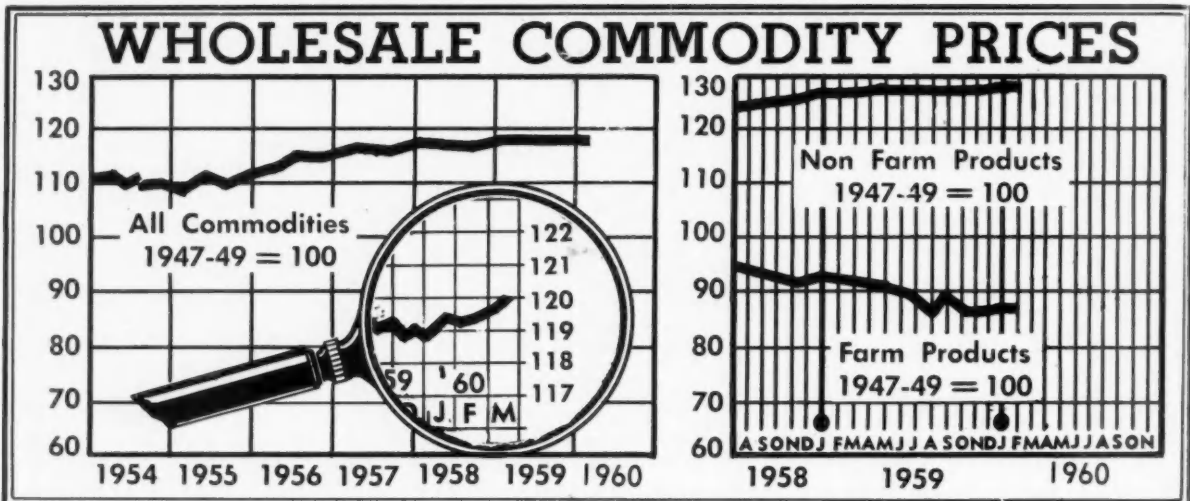
## Trend of Commodities

**SPOT MARKETS**—Sensitive commodity prices moved higher on balance in the two weeks ending March 25 and the BLS daily index of 22 such commodities rose 0.6%, to close at 84.4% of the 1947-1949 base. Both the food and raw industrial materials sectors of the index advanced, with the latter showing the greatest strength. Price increases in the industrial materials group included rubber, steel scrap, tallow and wool tops. Moderate declines were registered by burlap, copper scrap and tin.

Meanwhile, the rank and file of commodities strengthened. The BLS comprehensive weekly price index added 0.3% in the two weeks ending March 22, and was back to the highs of last year. Farm products and foods led the advance, reflecting the effect of recent bad weather. All commodities, other than farm products and foods, moved up moderately.

**FUTURES MARKETS**—Futures prices were firm in the two weeks ending March 28, although changes were small in most cases. Oats, lard, wool, world sugar, rubber, copper, zinc and lead all advanced, while mixed trends prevailed for wheat, corn, soybeans, coffee and cocoa, with one month advancing while another declined.

Old crop wheat futures spurted in the period under review with the May option adding 6 cents. Increased export demand for red winter wheat stimulated demand and, as has been noted here before, "free" supplies might be pretty thin by the time the option expires, unless prices advanced enough to encourage farmers to redeem wheat from the Government loan. With the redemption privilege expiring on March 31, it is still too early to tell how much wheat farmers have taken out of the support program.



#### BLS PRICE INDEXES 1947-1949=100

	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Mar. 22	120.1	119.7	119.6	60.2
Farm Products	Mar. 22	90.9	89.0	90.8	51.0
Non-Farm Products	Mar. 22	128.7	128.5	128.1	67.0
22 Sensitive Commodities	Mar. 25	84.4	83.7	86.6	53.0
9 Foods	Mar. 25	74.6	74.2	80.7	46.5
13 Raw Ind'l. Materials	Mar. 25	91.7	90.8	90.8	58.3
5 Metals	Mar. 25	93.9	93.4	95.7	54.6
4 Textiles	Mar. 25	78.9	79.8	76.7	56.3

#### MWS SPOT PRICE INDEX

##### 14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

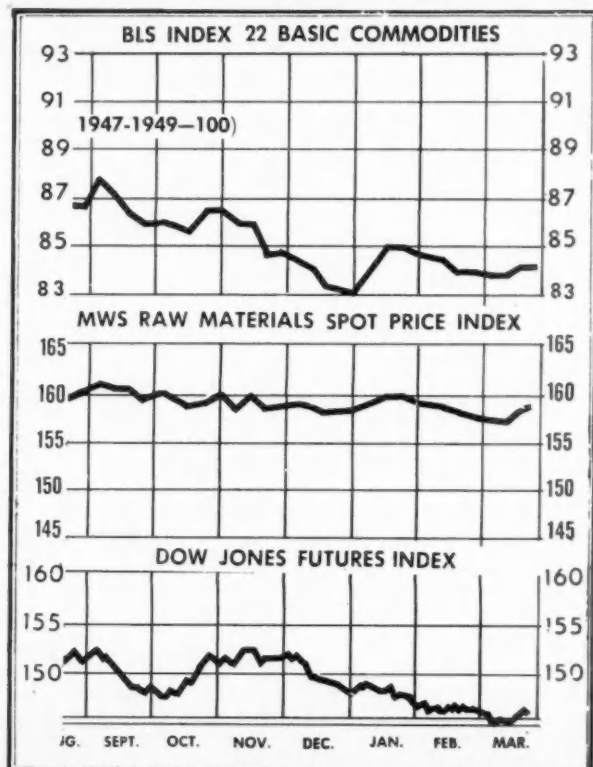
	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	132.1	146.5	147.9	176.4	74.3
Close of Year	158.3	152.1	152.1	180.8	83.5

#### DOW-JONES FUTURES INDEX

##### 12 COMMODITIES

AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year	147.8	147.6	166.5	189.4	84.1



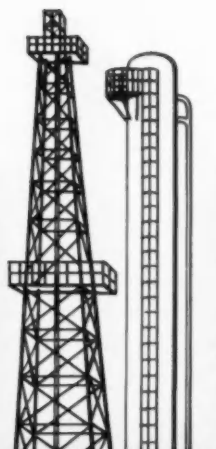
1958

1959



NET PRODUCTION

REFINERY RUNS



## NEW HORIZONS FOR OHIO OIL CLIMAX A YEAR OF OUTSTANDING PROGRESS IN 1959

- Brought refining and marketing volumes into balance with crude oil production.
- Proved important reserves of oil and gas in Libya.
- Produced a 72-year-record volume of crude oil and natural gas liquids.
- Discovered Alaska's first commercial reserves of natural gas.

## HIGHLIGHTS OF THE YEAR

### FINANCIAL

	1959*	1958
Total Revenues . . . . .	\$349,472,000	\$274,401,000
Net Income . . . . .	38,633,000	32,156,000
Net Income per Share . . . . .	2.76	2.45
Dividends per Share . . . . .	1.60	1.60
Book Value per Share . . . . .	29.22	27.97
Capital Expenditures . . . . .	52,367,000	39,241,000
Exploration Expense . . . . .	31,920,000	27,349,000
Payrolls . . . . .	55,970,000	44,707,000

### OPERATING

Net Crude Oil and Natural Gas Liquids Produced—Barrels per Day . . . . .	109,298	100,681
Natural Gas Produced and Sold—Thousand Cubic Feet per Day . . . . .	301,305	288,496
Crude Oil Transported—Million Barrel-Miles . . . . .	21,505	18,825
Refined Products Transported—Million Barrel-Miles . . . . .	1,331	1,360
Crude Oil Refined—Barrels per Day . . . . .	100,268	41,425
Refined Products Sold—Barrels per Day . . . . .	94,191	42,668

\*1959 figures reflect a consolidation of The Ohio Oil Company and Aurora Gasoline Company on the basis of a pooling of interests for the full year. Figures for 1958 include no amounts for Aurora.

Full details in our 72nd ANNUAL REPORT. For a copy, write: The Secretary

## THE OHIO OIL COMPANY Findlay, Ohio

Producers • Transporters • Refiners • Marketers of **MARATHON** Petroleum Products

**AURORA GASOLINE COMPANY**, a Wholly-Owned Subsidiary • Refiners and Marketers of **SPEEDWAY "79"** Petroleum Products

## Time For A Change? — To Set U.S. And World Finance In Order

(Continued from page 71)

central clearing houses or regional banks. *The discussions of the creation of a Common Market "Euronit" monetary unit are along these lines, necessarily intimating, however, some form of political integration within the specific group of countries involved.* This scheme could work in such an area as the Common Market, but would be more difficult in less economically diversified areas. It would indirectly make for a smoother monetary mechanism and be able to provide ample reserve funds in periods of payments or speculative stress. But such plans are, however, not even as really *internationally-oriented* as the present IMF structure.

►Some new possibilities have been noted in the **Radcliffe Report**, the comprehensive study on the workings of the U.K. monetary system. One scheme would encourage Central Banks to hold reserves with the IMF on the understanding that these could be drawn on freely, just as Sterling Area countries can now draw on their balances at the Bank of England.

►Another suggested by Mr. A.C.L. Day, of the London School of Economics is for the IMF to assume some of the U.K.'s Sterling liabilities. Under this plan, the reserves of Sterling Area countries would be held with the IMF, partially internationalizing reserves. Britain would undertake to pay the Sterling equivalent to the Fund in a series of annual or periodic payments over a period of time. It would be difficult, however, for such an arrangement to be accepted by international agreement and these payment pressures might even subject the U.K. to added strains.

►A third proposal in the Report, also by Mr. Day, envisions the eventual transformation of the IMF into a world central bank, as was proposed by the British at Bretton Woods. This would entail a global unit of account, with the Fund free to accept deposit liabilities or extend

overdraft or credit facilities to member country central banks.

### The Triffin Plan

►More detailed procedures have been presented recently by Professor Robert Triffin of Yale University, a leading architect of the successful European Payments Union. The **Triffin Plan**, a very well-documented, spelled-out and organized proposal, includes the following among its key provisions. 1) a basic reform of the IMF into a World Central Bank, similar in many aspects to Keynes' scheme presented in the early 1940's, but without some political implications inherent in the latter; 2) conversion of existing currency balances of member countries into practically internationalized IMF deposits, reviving the idea of a global "bancor" currency; 3) acceptance by debtors of such balances of an exchange rate guarantee in favor of the Fund; 4) a number of limits and safeguards on the use of resources; 5) the international deposits would consist of 20% to 30% of existing individual Central Bank reserves; 6) from 3% to 5% a year, a percentage calculated after rather careful consideration, would be added to global liquidity.

►Triffin has also proposed regional arrangements patterned after the existing Sterling Area, transforming the present European Monetary Agreement into a European Clearing House, and a shift to multilateral IMF financing of underdeveloped areas, from mostly Dollar and Sterling balances to utilization of international IMF reserve deposits.

### The Bernstein Plan

►Dr. Edward Bernstein, former Research Chief of the IMF, has another plan. He would maintain the IMF in its present general set-up, adding to the recently expanded Fund resources with a special reserve fund. The IMF would be authorized to float about \$6 billion of bonds, to be subscribed to by leading member nations, the U. S. to the extent of \$2.5 billion and the U.K. \$1. billion of the total. Only if a country was in a favorable balance of payments position, would it be required to take up its subscription. The bonds could be utilized before maturity date by a mem-

ber country subscriber to purchase other member currencies if and when its payments situation so required. In effect, this would provide the U. S. and Britain, especially, with more reserve resources for stress periods. Triffin, however, states that so-called "key currency nations" have often demonstrated that at the very times when they should theoretically export capital, they have been doing exactly the opposite.

### In Sum

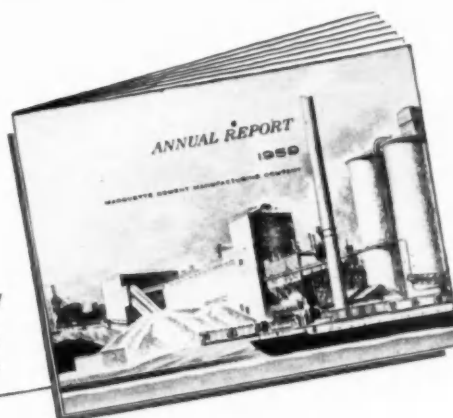
*Thinking ahead*, whether or not such proposals are as yet deemed acceptable, workable or desirable, can only help to produce positive results. If the U. S. payments position should continue to worsen or not improve substantially after more traditional steps are taken, without avail; if some political or social disturbances in overseas areas should put sudden liquidity strains on Sterling; or some event or events touch off harmful sudden movements and conversions of short term balances in key currency areas into gold or other currencies, our present international monetary mechanism would conceivably prove inadequate. The gradual transition to a revised world monetary system would be incontrovertibly more desirable than fast, painful and harmful payments adjustments which could be imposed upon major financial and commercial powers. An effective international reserve system allows for corrections of imbalance over time without subjecting domestic economies to destructive measures.

Any new network however, will not provide any automatic solution to international imbalance. More currencies would have to reach the convertibility stage for a truly global system to be effective. Strong creditor countries would have to act as "mature" creditors and take steps to discourage incoming capital movements when they should, in effect, be the reverse to help obtain overall balance. Finally, as was stated in the 1958 International Monetary Fund study on International Reserves and liquidity, the *environment* in which a monetary mechanism operates is often of greater importance than the level of available reserves. For example, according to the report,

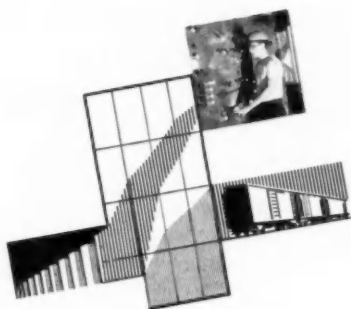


# Marquette reports for 1959

*Highlights of our operations for the year ended December 31, 1959, compared with the previous year, are given on this page from our latest Annual Report.*



Copies of our complete Report for 1959 are available upon request. Write to Director of Public Relations.



## Highlights from the Report

### CEMENT SALES

Up 7.8% over '58 to \$55,849,549. Gain came solely from 7.2% more volume.

### NET INCOME

Up 8.6% over '58 to \$9,490,897. Further improvements in operating efficiency and more volume account for increase.

### COMMON SHARE EARNINGS

Up 29¢ a share over '58 to \$3.55.

### COMMON DIVIDENDS

\$1.70 a share in '59—13.3% more than in '58. Current quarterly rate is 45¢, indicating new annual rate of \$1.80—5.9% more than in '59.

### DEPLETION ALLOWANCES

Only normal allowances were used. If court approved, higher allowances had been applied, net income would have been \$2,424,790 more—92¢ a share more.

### TAX REFUND CLAIMS

Progress in collecting claims based on court approved, higher depletion allowances is halted pending Supreme Court action in Cannelton case. Our claims, based on finished product values less packages, aggregate \$16,511,994. Sum includes taxes withheld for '57 through '59.

### EXCESS CAPACITY

Industry capacity will climb close to 440 million barrels by year end, over 70 million barrels more than needed four years from now.

### 1960 PROSPECTS

Expected reductions in highway and residential building probably will depress cement use slightly, notwithstanding increases in most other types of construction.

## Marquette Cement MANUFACTURING COMPANY

One of America's  
major cement producers

Executive offices: 20 North Wacker Drive, Chicago 6, Illinois

Operating ten cement producing plants in Illinois, Iowa, Ohio, Missouri, Tennessee, Mississippi, Georgia and Wisconsin.

Annual capacity  
16,970,000 Barrels

total reserves were most abundant in relation to world imports in 1937-38. The ratio was a high 63% for the world, excluding the U. S., and 100% including the United States. Yet there was no stimulation to trade whatsoever, as disequilibrating capital flights added to the general economic decline in a framework of widespread lack of confidence and political fears. And, at the present time, if 1) no adequate measures are successfully taken, by both their own domestic and by international actions, in the lagging underdeveloped and primarily one-commodity undiversified countries, and 2) no conscious internal measures are taken to help correct any structural or cost-price imbalances in the more advanced nations, no international monetary system, however intelligently planned and implemented, can be effective for a prolonged period of time. **END**

#### **A.T. & T. — Premier Investment**

*(Continued from page 75)*

ings improvement. For 1959 the company reported \$9.86 compared with \$8.09 for 1958 and \$8.32 for 1955. Recently Mountain States announced that it would follow many of its associated companies and split its shares but to date no ratio has been indicated. In view of the higher earnings and favorable outlook for this company a dividend increase also would appear to be a reasonable prospect.

**New England Telephone and Telegraph** serves the states of Maine, Vermont, New Hampshire, Rhode Island and Massachusetts. It has suffered the dual problems of serving an area having below average industrial growth and a difficult political and regulatory climate. Considering its many problems its earnings, although not spectacular, are better than would ordinarily be expected. Since 1956 earnings have risen steadily from \$1.58 to \$2.21 for 1959. Additional rate increases recently granted should enable the company to further improve earnings this year.

The **Cincinnati Suburban Telephone Co.** is relatively small and is concentrated in southern Ohio

and northern Kentucky. Its record has been unimpressive although reported earnings for 1959 of \$5.57 are significantly higher than the \$5.15 for the previous year and are about equal to 1956 earnings of \$5.56. No rate relief has been granted in recent years and there are apparently no applications pending. The security would appear to have lesser interest among the Bell System affiliates.

**Southern New England Telephone** operating in Connecticut has been subject to restrictive regulation for a number of years which has sharply limited earnings growth. In 1957 a \$7.5 million rate increase or about 7% was granted and earnings for 1958 rose to \$2.62 from \$2.25 in 1957. Last year, however, the company reported \$2.51, again showing an inability to sustain earnings growth. Recognizing the regulatory problem **American Telephone** has ceased to exercise its right to purchase new shares of common stock when offered to other investors. These shares would seem to have interest only where stability of income is the primary requirement.

**Bell Telephone Company of Canada** is related to **American Telephone** more in a philosophy of operation than financially, as the equity ownership by the latter is now only 3.6% of the outstanding common stock. Over 92% of the shares are held in Canada. The company serves most of the eastern half of Canada and all services are regulated by the Dominion Board of Transport Commissioners. While in general Canadian companies earn higher returns than those expected in the United States, this does not always hold true for utility services. Based on average invested capital the company earned 5.4% last year. Over the past ten years the earnings have fluctuated around the \$2.30-\$2.40 level and for 1959 were \$2.38. No material change in this pattern is foreseen.

From this brief review it would appear that investment in AT&T is superior to placing funds in shares of these subsidiaries or affiliates. Having markedly improved its posture in recent years and with prospects for a rising earnings trend, AT&T warrants consideration for broad investment purposes. **END**

#### **A Most Revealing Record Of "Insider" Transactions**

*(Continued from page 79)*

within the same period. ► On the opposite side, General Walter B. Smith purchased 5,030 shares of **American Machine & Foundry** back in November.

#### **Caution Indicated**

The substantial sales just cited certainly indicate a disposition on the part of executives of some of the more spectacular enterprises to cash in on recent profits. For the more conventional stocks the evidence is less conclusive, but January's heavy preponderance of sales over purchases must be given considerable weight. The most serious limitation upon the study of insider transactions is, of course, the long lag before they can be compiled and disseminated to the public. Succeeding reports should, therefore, be watched with particular care to see whether the market reversal which occurred in January will have a more positive effect upon management sentiment as reflected in insider transactions. **END**

#### **Africa In The Throes Of A Rebirth**

*(Continued from page 85)*

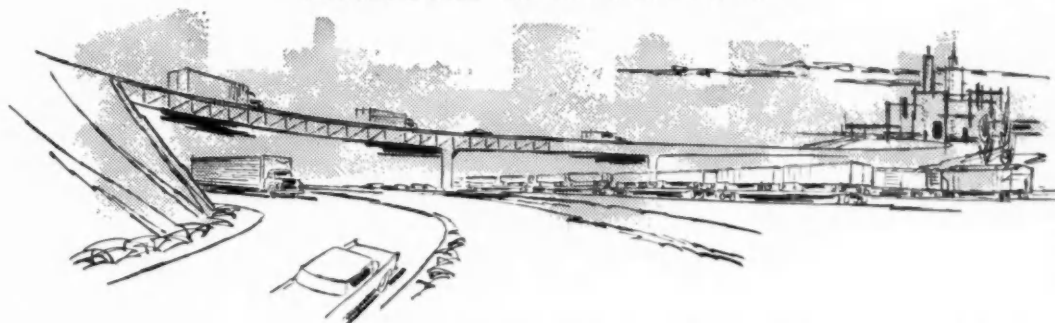
is effective only on general issues of principles rather than on practical issues of economic and political action.

#### **The New Federations emerging—**

Generally, Africans now seem to prefer regional schemes to continental dreams. Guinea and Ghana have taken the initiative by forming a loose union. The Senegal and the Sudanese Republic (formerly French) have joined in a Mali Federation. Last year, under the leadership of Houphouet-Boigny (one of Nkrumah's major antagonists), the Ivory Coast, Niger, and the Voltaic Republic formed the *Conseil de l'Entente* "to preserve what used to be French West Africa from Balkanization." More recently the former territories of French Equatorial

# Pullman Incorporated

## ANNUAL REPORT 1959



Pullman Incorporated earnings in 1959 after taxes were \$13,542,752, or \$5.87 per share, as compared with \$8,454,190, or \$3.63 per share, in 1958. The improvement in consolidated earnings, coming principally from the Kellogg companies and the Trailmobile group, demonstrates the benefits to Pullman Incorporated of the diversification program that commenced with the acquisition of The M. W. Kellogg Company some 15 years ago. Further diversification of Pullman's interests was accomplished during the year through the acquisition of the Swindell-Dressler Corporation of Pittsburgh and the formation of Transport Leasing Company, both of which are now wholly-owned subsidiaries of Pullman Incorporated.

### ANNUAL REPORT HIGHLIGHTS

	1959	1958
<b>FINANCIAL OPERATIONS</b>		
Revenues	\$406,870,010	\$371,728,569
Expenses	383,444,258	357,794,379
Income before Income Taxes	23,425,752	13,934,190
Federal and Foreign Income Taxes	9,883,000	5,480,000
Net Income	<u>\$ 13,542,752</u>	<u>\$ 8,454,190</u>
Net Income Per Share	\$5.87	\$3.63
Dividends paid	\$4.00	\$4.00
<b>FINANCIAL CONDITION (Year End)</b>		
Current Assets	\$169,127,926	\$172,955,948
Current Liabilities	46,567,620	46,322,166
Working Capital	122,560,306	126,633,782
Investments and Other Assets	20,634,262	15,924,972
Property, Plant and Equipment, at Cost less Depreciation	37,567,832	35,679,794
Stockholders' Equity	<u>\$180,762,400</u>	<u>\$178,238,548</u>
Consisting of:		
Capital Stock	\$ 92,315,160	\$ 93,208,120
Capital Surplus	32,034,935	32,995,928
Earned Surplus	56,412,305	52,034,500
Number of shares outstanding at December 31	2,307,879	2,330,203
Stockholders' Equity per Share	\$78.32	\$76.49

### DIVISION AND SUBSIDIARIES

Pullman-Standard division  
The M. W. Kellogg Company  
Trailmobile Inc.  
Trailmobile Finance Company  
Swindell-Dressler Corporation  
Transport Leasing Company

For a copy of the 1959 Annual Report write: *Pullman Incorporated* 100 West 10th Street, Wilmington 99, Delaware



Africa formed a steering committee for an Equatorial African Federation. The reason which the leaders of this movement gave for their decision to federate reflects the opinion of many African leaders. They said:

In the modern world small and little developed States cannot aspire to effective independence and rapid, social and economic progress if they do not form part of a whole, large and strong enough to guarantee their integrity and their liberty, and to ensure their economic and human advancement.

Because of the need for economic integration and viability, such schemes make sense; however, it is too early to determine whether tangible benefits will flow from these associative arrangements.

#### Eruption to the South

A different set of political problems exists in the southern tier of African territories—the Union of South Africa, the Federation of Rhodesia and Nyasaland, and the Portuguese territories of Angola and Mozambique. Here, unlike in the newly independent nations, the dilemma is one of large white minorities floating precariously in the seas of rising African nationalism.

In the Federation, approximately 300,000 whites rule 7 million Africans. In the Union, 3 million whites dominate 9 million Africans, 400,000 Asians, and 1.3 million "colored." White leaders in the Federation place their hope in the political formula of "partnership," that is, a gradual sharing of political power with "qualified" Africans, and a limited African suffrage. But seven years of "partnership" have led Africans to view the formula with suspicion and to allege that continued white control is the goal.

The direction of change seems backward rather than forward (despite real gains for the Africans on all levels). Sir Roy Welensky, the prime minister of the Federation, and his Federal Party seem intransigent in their go-slow policy. Garfield Todd, leader of the liberal wing of the whites, fears that unless there is a more rapid accommodation of African nationalism, the area will be visited by a violence greater in

scale than that which occurred during 1959.

It is difficult to predict the outcome. Extreme white nationalists have made it clear that Southern Rhodesia will not follow Kenya (where Africans will shortly secure a majority in Government) and that it may even join the Union of South Africa where white domination, not "partnership" is the rule.

#### White vs. Black Supremacy

South Africa's answer to African nationalism has been Afrikaner nationalism. Afrikaners are descendants of the Dutch; and their history recounts their hard won victories over the African Zulus. Prime Minister Hendrik Verwoerd has pushed forward more stringent segregationist legislation than did his predecessors. *Apartheid*, the doctrine of separation of the races, is buttressed by a quasi-police state which is convinced that racial equality would mean the "disintegration of Christianity and civilization." Outside of the few liberals and members of the Catholic and Protestant clergy, all-out opposition to *apartheid* has come mainly from the illegal Communist party (about 3,000 members) and its mouthpiece, the *New Age*.

In this recent address to the South African parliament, Prime Minister MacMillan warned that the wind of nationalism was sweeping all Africa and that it seemed to him prudent not to go against it. In the Portuguese territories of Angola and Mozambique, where there are also large white minorities, there is a refusal to admit that such a wind is stirring. The next five years should show which policy is the correct one: trying to maintain the status quo or making a timely accommodation.

#### The Weak and Strong Economies

The political metamorphosis and its train of problems has its counterpart in the economic sphere. The fundamental paradox of the African continent is that political change has been most rapid in territories where the economic bases for change are weakest, and has been least rapid in territories where the economic bases are strongest.

South Africa and the Federa-

tion are the richest territories of the continent. Most African territories, with the exception of the wealthy Belgian Congo, are characterized by vulnerable one-crop economies which are exceedingly sensitive to fluctuations in the world market. Subsistence agriculture is still the dominant economic activity of most Africans; about 70 per cent of the total cultivated area is devoted to subsistence agriculture. But African economies are in a stage of transition from subsistence products to exchange products.

#### The Wealth of Africa

The recent report of the United Nations Economic Commission for Africa, *Economic Survey of Africa since 1950*, presents a graphic index to the economic change that has been wrought in Africa during the past decade. Most revealing is the development in external trade. Value of African imports between 1950 and 1957 increased by approximately 80 per cent; that of exports, by about 60 per cent. Export values fluctuated more than import values.

In agricultural production: • Coffee output is now twice the 1950 level. • Cotton production has gone up about 13 per cent in the past decade; and sugar production (mostly for internal consumption) in 1957 was 50 per cent above the 1948-1952 average. • Over the same period, however, there was about an 8 per cent decrease in cocoa. • More significant in growth has been the mining industry.

Despite the lack of statistics, it is known that the Belgian Congo now provides the free world with 80 per cent of its uranium. In regard to other minerals, the following increases are noted for the period between 1948-1950 and 1955-57: •copper by 55 per cent; manganese by 36 per cent; chrome by 45 per cent; cobalt by 98 per cent; iron ore by 88 per cent, and tin by 10 per cent. • The growing demand for diamonds is reflected in the 50 per cent increase in sale value over the 1950 level. • Mineral production is heavily concentrated in the Federation, the Belgian Congo and South Africa; but mineral resources, especially bauxite, iron ore, and diamonds exist in West Africa.

## Power Development

Major projects for providing power for economic growth have been completed and others are in the planning stage.

The Kariba Dam scheme in the Federation will provide 1.2 million kw by 1972. The Owen Falls Dam in Uganda has a capacity of 150,000 kw. Power production in South Africa has doubled since 1952. The recently completed Edea Dam in the Cameroons has a potential of 1.25 million kw. Planned projects include the Inga Dam in the Belgian Congo, the Konkouré in Guinea, the Volta in Ghana, the Shire Valley in Nyasaland, and the Sennar in the Sudan. Outstanding among these is the Inga scheme which is said to have a potential of 20 to 40 million kwh. But to build the Inga will require a \$3 billion expenditure, a sum which is unlikely to be raised for some time. *Potential African hydroelectric power is put at 39 per cent of the world's potential, but presently it is only three-quarters of one per cent of the world's output.*

Investment opportunities vary considerably. Capital has gone into the Kariba because Northern Rhodesia has assured outlets for power. However the Volta scheme has made no substantial headway because investors are hesitant to back it; to be successful it requires new railway lines, a new aluminum smelter, and harbor facilities. *In fact Canadian and British capital has lost interest in the project.*

## Enormous Capital Needs — Great Risks Involved

The great lever of economic change in Africa is capital, and here growth has been relatively significant. Total external investment in Africa, South of the Sahara, from 1871 to 1939 is estimated at \$6 billion; during one decade after the war, 1947 to 1957, it was \$10 billion. South Africa, the Congo, and the Federation absorbed slightly more than one-half of the total investment. With the exception of the Federation and South Africa, the pattern now seems to be that public investments exceed private investments. ► Roughly, since 1946, France, through its FIDES (Fonde d'Investissement pour le

# How the professional decides to buy or sell stocks

If you had to make important investment decisions every day, all day long, what economic, political and financial weather vanes would you watch? The April issue of THE EXCHANGE Magazine tells you how one eminent expert makes his decisions. He is Chairman of the Executive Committee of The Lehman Corporation. "A Professional Investor Looks at a New Security" is an informative article you won't want to miss.

## Why investors have been buying bonds

The attractiveness of bonds these days is generally attributed to their recent yield in comparison with stock as measured by a popular average—4.84% against 3.50%. But there are other reasons, too. Bonds selling at discounts may offer some interesting possibilities from a tax standpoint. Be sure to read "What About Bonds?" in the current issue.

## What's right about rights?

Last year 22 companies listed on the "Big Board" offered rights. How did stockholders who exercised their rights make out? The 1959 records of every one of these companies is included in the article, "Rights Prove Profitable."

## Common vs. Preferred: Who's ahead?

Suppose you invested the same amount in the preferred and common stocks of 25 prominent industrial companies a year ago. Which brought the better return or income? In "Common vs. Preferred" you'll find the answer—and you may be surprised. It's all summarized in a handy and informative table.

## Then and Now

Five years ago THE EXCHANGE asked its subscribers which stocks they would buy to hold for three years or longer. A check-up of their 75 favorites shows what's happened since then. Gains as well as losses are spotlighted in an article titled "Five Years Later."

And there's additional interesting information in the March issue of THE EXCHANGE Magazine, including a fact-filled piece identifying the investments of a fund designed to boost the earnings of a group of savings banks.

\* \* \*

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Developement Economique et Social), has pumped approximately \$1.2 billion into its African territories. ► **British** public investments come to about \$600 million. ► Another \$530 million has been poured into the area by the **International Bank of Reconstruction and Development**; and the **European Common Market** has recently earmarked about \$300 million for the continent. The amount of public investment indicates the heavy role played by government in promoting economic growth, particularly through "development plans" which are pre-industrialization programs, such as irrigation schemes and expanding infrastructure facilities. The over-all goal is to generate demand, which is presently low, and hence to create and widen investment activities.

So far the expected complementary private investments anticipated from the public investments have not materialized to a satisfactory degree. Private investments have come almost exclusively from the large corporations such as the **Unione Miniere du Haut Katanga**. This is particularly true of *American investments*, the bulk of which come from **American Metal Climax, Chase International Investment, Olin Mathieson, U.S. Steel, Firestone, Kaiser, Kennecott Copper, Socony Mobil**, and the **Inglehardt Industries**.

African political leaders have strongly emphasized, repeatedly, that they desire American private capital. Their legislation dealing with sanctity of contracts and other assurances to investors reflect that desideratum.

*However, there are basic obstacles in the fear of political instability.* The problem is that both potentialities for economic growth and opportunities are presented at a time when Africa is in a state of rapid political transition. The newly independent nations must sustain their stability and the richer but white dominated multiracial states must prove that they are capable of eliminating the discriminatory laws which have been productive of strife and violence.

#### Other Serious Limitations

Besides the political uncertainties, there are other limitations

to economic growth. *Under the extreme climatic conditions found in most of Africa, machinery deteriorates rapidly and internal transport is sometimes immobilized for long periods.* • African soil is lateritic; it exhausts rapidly under intensive cultivation. • Bilharzia, malaria, and undernourishment limit the efficiency of manpower.

*The high rate of illiteracy must be overcome to provide the educational bases of economic development, and modern concepts of saving and land tenure must replace older concepts.*

*Integrity in government and administration and sound economic planning must replace the natural tendency toward nepotism, and economic projects which satisfy nationalistic rather than economic desiderata.*

#### Position of United States vs. Soviet Union

The picture of change, transition, progress, problems, and difficulties which we have drawn presents a major challenge to the United States. So far American economic policy has assumed that African aid is primarily a European responsibility. In the private sector of American investments there was in 1957 a total investment of \$620 million, one-half of which was in South Africa and the remainder chiefly in the Federation and in Liberia. American public investments, although they have not been high, have been increasing. The Mutual Security Agency budget allocation for Africa for 1960 is placed at \$109 million, which is slightly more than ten times the allocation for 1950. The Development Loan Fund has assigned another \$20 million for the area. In addition, the Export-Import Bank allocations have been quite significant (about \$300 million).

Until recently, the **Soviet Union** has not taken an active role in Africa. Communist parties in Africa do not exist except for the small group in South Africa. *But there are now significant signs of communist intrusions.*

**Guinea** has recently accepted a \$35 million loan from the Soviet bloc and a large number of technicians, • and **Ethiopia** has ac-

cepted a \$100 million loan. Invitations to visit Africa have been extended to Khrushchev by Sékou Touré, the prime minister of Guinea, Haile Selassie, Emperor of Ethiopia, and President Tubman of Liberia.

*As African territories gain independence, Communist legations with effective propaganda centers will be established.* Recently Moscow has announced the establishment of a university for aspiring students of underdeveloped territories, and Radio Moscow has intensified its broadcasts in African languages. At the same time, Nasser has been making his bid for leadership of the African continent. The large majority of African political leaders have rejected these bids from Moscow and Cairo. In fact, the Moscow-directed Afro-Asian Solidarity Conference in Cairo fell flat. Kwane Nkrumah, like other responsible African leaders, has warned Moscow and Cairo that Africa will not tolerate imperialism from any quarter.

#### In Sum

Most authorities agree that at least for the next five years, the West can maintain the natural advantages it now possesses. The question is: Will the West default to the Soviet bloc by reason of inadequate policies? The answer to some degree lies in the policies which we will implement during the coming crucial half decade. But African leaders must bear their part of the responsibility; they must strive to formulate sound domestic and external economic policies which bring economic and social progress to their people. In the southern tier of African states, there must be a concerted effort by white leaders to give the Africans a larger share in the economic benefits.

END

#### An Analysis in Depth . . . Balanced Appraisal Of The Oils — Global And Domestic

(Continued from page 89)

*this adjustment is made, the oil industry's supply-demand picture will be lopsided on the supply side, with adverse effects on prices and profits.*



### What You Can Count on Over Long-Term

It is not likely that demand will grow at a slower rate than assumed above. For competition between oil and other fuels is actually quite limited

In gasoline, jet fuel, motor diesel oil, residual fuel oil for ship bunkering and in lubricants, oil has no competitor today and will not have one for many years to come! Hence, all increases in the demand for these products will go entirely to the oil industry.

In the long run this is one of the healthiest aspects of this industry and gives it a much more certain growth potential than many of the more dynamic stocks whose value could plunge on very short notice as a result of technological obsolescence or changes in military requirements.

### The Shorter and Intermediate Term

But while the long-term prospects of oil values are certainly promising, the same can not be said of the immediate future. As every investor knows, oil shares have lagged behind other values for some time now and no early major recovery is in sight. On the other hand, there is no reason to assume that oil values, on the whole, will continue to decline. They have recovered slightly during 1959 when industry earnings were about 14% above the previous year's (compared to a 27% increase for U. S. industry in general). This year they will undoubtedly show another increase, although not for the first quarter, for which an overall drop in earnings is likely to be reported, largely due to the unusually warm winter weather until late March, which caused a decline of about 11% in heating oil sales, accompanied by a weakening of the product price structure. However, during the later part of the year the benefits of previous large investments combined with a cut-back in expenditures for exploration should bring about a further improvement in earnings — but it will be of comparatively modest proportions.

The reason some of the big institutional investors trimmed their oil holdings during the past twelve months was due less to fear that the floor might drop

out from under these shares, and more to the lure of higher profits in companies of specialized industries. Investment funds are still holding a very large portfolio of oil shares, which they may average later to reduce costs.

### Facts The Oil Investor Should Know

Investors, therefore, should think in terms of individual companies rather than the industry as a whole. For, while every oil company has been affected to some extent by the trends described above, the outlook varies greatly between different types of oil companies, in which there is a high degree of diversification, geographically, products-wise and integration-wise.

### The Major International Oils

The best growth and earnings prospect continues to be that of the major international oils — Jersey Standard, Gulf, Texaco, Socony and California Standard.

►These companies have their own production, refining and marketing facilities on the home front, which means they have an assured outlet for their oil as well as an assured supply. In addition, they can draw on their own foreign production to fill their oil imports quotas and, hence, pay a much lower price for their imports than companies which must buy in the open market.

►Perhaps even more important is the fact that these companies have established marketing outlets throughout the Eastern hemisphere and Latin America. This permits them to participate in the rising oil demand in foreign lands which is increasing at a rate of 8% per year, or more than twice the prevailing rate in the U. S.

### Offsetting Factors

Unfortunately, this participation will become somewhat restricted in the future by the Saharan oil discoveries which will displace a significant amount of Middle East oil in France within three or four years, and will feel the effect, too, of a recent new oil discovery in Saudi Arabia made by a Japanese company, which will of course have first priority in its home market. On top of this will come the competition from the growing exporta-

tion of Soviet oil to the West.

►But these limiting influences must be balanced against the fact that oil production overseas, especially in the Middle East, continues to be extremely lucrative. A further element of strength for both Jersey and Caltex (Texaco, California Standard) is to be found in their major oil deposits in Libya, whose exploitation could be as profitable as those of the Middle East.

The great international companies continue therefore to be good investments, although the oil surplus abroad — higher production costs and taxes in Venezuela — plus the lower rise in domestic demand have made them (and will continue to make them) somewhat less dynamic than heretofore.

Among major international companies, oils showed the sharpest drop in foreign earnings last year due to a number of factors. However, in the first quarter of 1960 a substantial increase in purchases by the Shell Group has caused Gulf's total earnings to rise by about 20% above a year ago.

### The Integrated Oils

Next to the major international companies the strongest group consists of companies with import licenses to bring oil into the U. S. and their own overseas production. It includes many well-known integrated companies, such as Atlantic Refining, Sun Oil, Tidewater, Cities Service, Continental Oil, Ohio Oil, Signal Oil & Gas, Ashland Oil and Pure Oil. Some of these companies have a larger import quota than they can use in their own refineries. They can therefore earn an additional profit of about \$1.00 per barrel by swapping their excess imports for domestic oil delivered to their inland refineries. Cities Service, Continental Oil, Ashland Oil, Ohio Oil, Standard of Ohio and Phillips Petroleum are the chief holders of such excess quotas, among firms with their own overseas production.

Among newcomers to overseas production is the Conorada group (owned equally by Continental Oil, Ohio Oil and Amerada). It has found what appears to be an extremely important oil field in Libya which it will soon begin

to exploit. Since two members of Conorada have import quotas, some of the oil is likely to find its way into the United States. But the bulk of it will probably be sold in the Eastern hemisphere which may involve some difficulties, at least initially, since none of the Conorada partners have sales outlets there. Another company operating in Libya, Texas Gulf Producing Co., has tried to anticipate this obstacle by concluding an advance agreement with Jersey-Standard to market all its oil found in the North African desert country.

### The Speculative Group

The weakest group of companies consists of purely domestic non-integrated refiners or producers. The refiners are plagued by the fact that products prices are still declining while crude oil prices are holding their own. This has forced their profit margins very close to the breakeven point.

Non-integrated crude oil producers suffer from the absence of an assured market outlet which is always desirable but becomes almost a necessity during a period of over-supply when the main problem is not to find oil but buyers for it.

### Trend Toward Diversification

In judging the value of any individual oil company the above categories provide a guide only to its *oil* business. But many oil companies have become diversified and their earnings from their other activities are often a very significant factor in their total worth. Thus, they are frequently also in the *petro-chemical business*, a real growth industry with a vast potential. Not much oil is used in the manufacture of petro-chemicals but the profits are relatively high. Among the leaders in this group are Jersey-Standard, Shell Oil and Phillips. Virtually all other integrated oil companies have some sort of petro-chemical production. Closely allied with petro-chemicals is liquified petroleum gas whose production increased by 16.5 percent last year. Phillips and Skelly Oil are among the most prominent companies in this rapidly expanding field.

Finally, virtually every oil producer also produces *natural gas*, the demand for which is

growing at a much more rapid pace than that of oil. Natural gas prices are steadily increasing, although the well-head price control exercised by the Federal Power Commission keeps profits considerably below what they would be otherwise. The removal of this control is a purely political question. There is very little likelihood that it will happen in the present session of Congress. But it could happen next year if northern liberals do not obtain control of Congress or the White House. END

## Strong Demand Continues In Chemical Industry

(Continued from page 93)

For the first time, production of two individual plastics groups increased to more than 1 billion pounds. Polyethylene output amounted to 1.2 billion pounds and vinyls production reached 1.15 billion pounds. Furthermore, the styrene group approached the billion pound mark, recording an output of 940 million pounds.

The chief factor which stimulates the rapid growth in plastics materials is their wide utility. Plastics are used to produce civilian, defense-supporting and military items. Like steel, aluminum and other metals, plastics are used in the manufacture of a wide variety of fabricated products.

Numerous new developments in the plastics industry indicate that a high rate of growth will probably be continued in 1960 and future years. Standards of plastics' products are constantly being up-graded. Furthermore, an intense drive is on in technology to produce plastics materials — polymers and co-polymers — "tailor-made" for specific uses.

### Diversifications

A major characteristic of chemical companies is the wide diversity of their product lines, ranging from heavy industrial chemicals such as chlorine and caustic soda to plastics, and further to fine chemicals used in pharmaceuticals. In recent years, a further trend of diversification has become observable. Companies outside the chemical industry

have sought to diversify their operations by entering chemical production.

**W.R. Grace and Company**, which has undertaken a major polyethylene project in addition to other chemical ventures, is one example. **National Distillers and Chemical Corp.**, a liquor company ten years ago, is now one of the leading producers of polyethylene.

At the same time, important elements in the chemical industry have expanded their participation in other industries. **Olin Mathieson Chemical Corp.** which has undertaken a major aluminum venture, is a leading example of this diversification. **Monsanto Chemical** purchased Lion Oil Company a few years ago and is now engaged in production of oil and gas, as well as chemicals and petrochemicals.

These moves assure the continued viability and competitive vigor of the chemical industry. They also lead to important fundamental shifts in the industry. As time goes on, companies can become completely transformed just as DuPont, originally an explosives company, became the world's leading chemical firm.

### Outlook for Individual Companies

Each of the major chemical producers should participate in the expansion in sales and earnings expected for the industry.

**Union Carbide**, which experienced an excellent year in 1959, ought to boost earnings to new record levels, based on higher operations in its three major divisions — chemicals, plastics, and industrial gases. The industry's most important producer of polyethylene, Union Carbide is benefiting greatly from the rapid growth in this product.

**DuPont** is attempting to capture a higher share of the auto and truck tire business for its nylon tire yarn from rayon tire yarn. In the attempt, prices have been lowered sharply and further reductions may be necessary. In the intermediate period ahead therefore, earnings from nylon may not grow as rapidly as in the past until major new markets are tapped. However, DuPont has many new products, the most important of which is Delrin, a new rigid thermoplastic with wide uses which will stand

it in good stead.

**Dow Chemical** is making good progress in all major lines of its business, and earnings are likely to increase to record levels. The company has started a major new capital expenditure program and is one of the leaders in the expansion into foreign areas.

Among those companies which are embarked on diversification programs, **Olin Mathieson** possesses interesting prospects for the future. In 1959, Olin's earnings were \$2.81 per share and the company's new aluminum venture showed a start-up loss of 38¢ per share. By the end of the year, however, the aluminum project was in the black, and in 1960, a modest profit is likely to be earned. Furthermore, extensive revitalization programs in the company's chemical division should lead to a basic improvement in profit margins.

Another company which is expanding its earning power through diversification, **National Distillers and Chemical Corp.**, will have large new capacity to produce polyethylene in operation by the third quarter of 1960. At that time, this firm will be second only to Union Carbide as the world's largest producer of polyethylene. Chemicals now amount to about 40% of the company's operating profits.

A medium-sized firm which is also making good progress through diversification and research is **Pennsalt**. Although this company specializes in chemicals derived from salt, it is in the process of entering new fields such as fluorine chemistry, which provide it with new growth opportunities.

Aside from the above firms, each of whose business is mainly related to industrial chemicals, the major agricultural chemical firms are benefiting from better trends in their industry. Capacity of anhydrous ammonia, a major fertilizer component, is in better balance with demand than in previous years and prices are firmer. **Smith-Douglass** is likely to be able to register a substantial increase in earnings during 1960, and **International Minerals and Chemicals** is also expected to increase its income significantly.

#### Summary

As the chemical industry en-

ters the decade of the 60's, the immediate outlook for financial returns is one of modest optimism, tempered only by the realization that general business activity could taper off. At the same time, competition is increasing within the chemical industry, both from firms currently engaged in chemical operations and from outsiders such as petroleum companies which are increasingly looking to chemicals to up-grade their products and their profit structure. This places a premium on effective research and development of new products. Those companies with good management and important research efforts will be in the best position to capitalize on the growing markets for chemicals during the next decade. END

#### Continued Growth Foreseen for Drug Industry

*(Continued from page 97)*

**Searle's Aldactone.**

The mental drug field saw considerable publicity concerning Librium, a new drug undergoing clinical tests. Developed by the Swiss firm, **Hoffman LaRoche**, this could prove competitive to both the mild meprobamates of **Cartier Products** and **American Home Products** and the phenothiazines of **Smith, Kline & French** used in more severe psychotic disorders. With over half of total sales and earnings attributable to these drugs, the latter company seems particularly vulnerable.

#### Proprietary Growth Consistent

In contrast with ethical drugs which are promoted directly to the medical and pharmacal professions, proprietaries are advertised extensively to the public. The major product groups are vitamins, cold remedies, aspirins, and laxatives. Growth has tended to outpace population gains and has been relatively unaffected by the business cycle. Entry into ethicals has characterized this sector of the pharmaceutical industry. Most of the proprietary companies included in this survey have thus diversified and have made valuable contributions to the field.

#### Investment Considerations

The pharmaceutical industry

is one of rapid technological change, characterized by consistent growth, above-average profit margins, a high degree of product risk, and heavy research spending. Research represents the soundest common denominator of investment selection and as an overall investment philosophy for participation in industry growth, a "package" seems advisable. In this way, the investor stands the best chance of sharing in research advances. Currently, the following stocks appear relatively best situated but at any time, careful selection must be exercised.

**Upjohn** is a well managed, broadly diversified drug house with a long history of rising sales and earnings. Its products fall generally into four groups, namely antibiotics, steroids, nutritional, and others such as Cheracol, an ethical cough syrup and Orinase for diabetics. The latter is one of the company's larger volume items, having attained the \$20 million level in slightly over two years. Medrol, Upjohn's steroid entry, is thought to have a \$30 million sales rate. The latest available sales breakdown is dietary supplements, 36%; steroids, 23%; antibiotics, 19%; Orinase, 14%; and bulk sales, 8%. Earnings of \$1.65 per share in 1959 maintained the unbroken seven year uptrend and a further increase is indicated this year. Upjohn has had a fine research record and spent an estimated 10% of sales in this area last year.

**Merck** is also a well diversified ethical drug company with over 1,300 products in its line, including biologicals, vitamins, antibiotics, steroids and diuretics. Merck operations are divided among bulk medicinal and fine chemicals, pharmaceuticals, international sales, and research. Foreign sales accounted for 29% of the 1959 total and profits from these sources of \$10.9 million were nearly double those of the previous year. The sales and earnings performances of the past five years have been impressive as earnings per share rose annually from \$1.09 to \$2.79. At current levels, the shares rather fully reflect anticipated earnings gains. This is an investment grade issue in a well managed, broadly based ethical firm and long range potentials appear



favorable.

**Parke, Davis** as mentioned previously is heavily dependent on one product, the broad spectrum Chloromycetin. Thus a fine growth record since 1953 is valued generally lower by the market. Parke, Davis has had a long and successful record in the pharmaceutical industry, having been incorporated in 1875 and paid dividends each year since 1878. It has a product line of over 600 items including general pharmaceuticals, antibiotics, biologicals and surgical dressings. A four way vaccine was marketed last year to protect against diphtheria, tetanus, pertussis, and polio. A new antibiotic, Humatin, for treatment of bacterial and amebic dysenteries, is now ready for release. It will be available in the U.S. in May and on a world-wide basis later this year. Sales in the early part of this year are thought to be running well ahead of last year and first quarter earnings comparisons should be favorable. While the heavy dependence on Chloromycetin presents an element of risk, the longer term outlook is for continuing growth. This year should see earnings increase moderately.

**Schering** experienced rapid increases in sales and earnings following its 1955 introduction of its "meti-steroids", Meticcorten and Meticcortelon. Competing products have since reversed the uptrend, but the meti drugs are thought to have stabilized. Meanwhile, Schering research has developed other new products to take up the slack and broaden the earnings base. Also, acquisitions have served to further diversify operations into veterinaries and over-the-counter pharmaceuticals. Two new products introduced in 1959, Deronil, an improved corticosteroid, and Fulvicin, mentioned previously, have had good market acceptance. Schering's Coricidin is one of the better known non-prescription cold remedies and an improved version has recently been introduced. Well-financed, and with an increasingly productive research organization providing a broader product line, Schering now appears in good position to share in industry growth. Earnings this year could stage a smart recovery.

**Mead Johnson** is a small, highly

regarded ethical firm best known for its Pablum line of infant cereals. Nutritionals and pharmaceuticals account for about three fourths of sales and since more aggressive management policies were initiated in 1950, growth has been impressive. In late 1959, a new dietary product, Metrecal, was introduced. Although it has thus far been promoted only ethically, it has had an enthusiastic reception and the company is encountering difficulty in keeping the supply lines filled. A powder, soluble in water, Metrecal provides all the vitamins, minerals, and proteins the normal person needs and with only a 900 calorie intake. Should demand persist at its current pace, this product could add \$0.50 to \$1.50 per share to earnings which from normal sources are estimated at \$3.00 per share.

**Bristol-Myers** earnings should get a good impetus from Synicillin. The company's proprietary products, accounting for nearly 80% of sales, include Bufferin, Sal Hepatica, Ipana, Vitalis, and Minit-Rub. A 1959 acquisition, Clairol, should also prove an important source of additional earnings. With the early 1960 months benefitting from flu scares and generally bad weather, first quarter earnings should be aided considerably. Bristol has posted an impressive record and with ethicals taking on more importance, this growth trend should be maintained. Earnings in 1960 could be up nearly 25% on a per share basis.

**Rexall Drug & Chemical** has materially reduced the importance of retailing to overall earnings to about 15%, with the Rexall Division, manufacturing pharmaceuticals—35%, ethicals—15%, plastics—30%, and hospital and rubber goods—5% accounting for the remainder. Rexall acquired Chippewa Plastics last year, a manufacturer of polyethylene film and bags to further broaden its plastics business. It is believed that the company, which recently consolidated much of its west coast plastic operations, will soon announce further expansion in this phase of its business, perhaps a move toward vertical integration into raw materials. Since embarking on its program to reduce the dependence on retailing, the company's profit per-

formance has been noteworthy. Last year, earnings per share increased for the eighth consecutive year. Now firmly entrenched in a rapidly growing segment of the economy, plastics, and with a growing stake in ethicals, Rexall could be entering a period of accelerated earnings gains.

**Sterling Drugs** is an important proprietary drug manufacturer whose largest selling product is Bayer Aspirin which continues to post new records each year. Its other proprietaries include Phillips Milk of Magnesia, Ironized Yeast and Dr. Lyons Tooth Powder. Foreign sales account for about a third of the total. An interesting potentially large earnings source is the Zimmermann Process for sewage and industrial waste disposal. A large facility is currently being installed in Chicago and is scheduled for June, 1961 completion. It is thought that when operating, it will enable other potential users to evaluate the process for their own use. Sterling expects to license its use to various municipalities and industrial users on a royalty basis.

**Warner-Lambert** is a well diversified enterprise with sales comprised of ethicals—24%, proprietaries—34%, drug sundries—13%, toiletries and cosmetics—15%, and plastics and glass containers—14%. Its better known products are Listerine, Bromo-Seltzer, and the Anahist line of cold remedies. A new mental stimulant, Nardil and an antibiotic especially useful in certain children's illnesses, Coly-mycin, were introduced last year and two mental health drugs are in the clinical testing stage currently. A fine growth record does not appear to be fully reflected in the market price for the shares.

END

## Annual Reappraisal Of The Paper Companies

(Continued from page 101)

company in the year ahead, but better prices and more efficient utilization of capacity should bring earnings close to \$3.00 per share.

### Outlook For Smaller Companies

Among the smaller companies

orthy. In the industry, the price advance by St. Regis was particularly welcome news. **West Virginia Pulp & Paper**, (the largest in this group) has been hit hard by weak prices. In the quarter that ended January 31, 1960, for example, sales were up \$1.3 million over the same period of the previous year but profits were 2 percent behind. With capacity for over 500,000 tons of kraft and heavy volume in multiwall bags, West Virginia is in position to benefit significantly from the price increases.

In 1959 West Virginia broke out of the earnings downtrend that had set in after 1956, but at \$2.21 per share profits were still well below the \$3.19 earned in that record year. In 1960, however, a sales increase to about \$250 million is expected, especially since the use of Clupak stretchable papers is finding wider acceptance by producers of products that can be shipped in multiwall bags. Accordingly, earnings, despite the first quarter results, could run well ahead of last year.

**Ravonier**, because of its special product lines will not enjoy much benefit from the price advances. Its special pulps are used primarily in the manufacture of textile fibers, tire cords and cellophane.

This product mix led to a sharp earnings increase in 1959, reflecting largely the success of Tryex tire yarns. However, price cutting in recent months has changed the outlook for 1960 and beyond. Moreover, Nylon producers are making a more concerted bid for the lucrative tire yarn business, indicating a long struggle that may not be settled for several years.

Thus, although Ravonier's earnings jump to \$2.35 in 1959 from only 65¢ the year before is impressive, there is little chance that the company will better that performance in the year ahead.

#### Container and Paperboard Companies

The revolution in packaging methods and techniques in recent years has led to healthy growth for the container industry. Paper products can now compete effectively with metals and plastics, while boards and cartons have become so important that their production is considered a

leading business indicator.

Like the rest of the paper industry, however, peak earnings were hit in 1956 before the current round of enormous expansion began. Since then, revenues have climbed steadily but earnings have trailed far behind.

However, if output in the first few months of 1960 is an indication, the year will be a record breaking one for many of the companies, although the heavy spate of recent mergers and acquisitions will make direct earnings comparisons difficult.

**Fiberboard Paper Products**, one of the largest companies in the field appears likely to better its 1959 record and perhaps score its best earnings to date. Earnings in 1959 fell a bit behind the previous year owing to the impact of a six week work stoppage in one of its California floor covering plants. Without disruptions of this type in 1960 the combination of rising demand and newly created capacity should stimulate profits.

**Federal Paper Board**, which recently merged with Manchester Board & Paper may have trouble in the first year ironing out the effects of the merger, but in the long run the greater efficiency to result should produce higher earnings. Assuming that merger details are not too difficult, 1960 could reverse the downward trend of earnings since 1957 and push per share profits back to \$4.00.

#### Summary

For much of the last decade the paper industry has had an aura of growth about it. This is in sharp contrast to its prewar reputation. Certainly the growth in the usage of paper products justifies the new appraisal. However, earnings in recent years have fallen short of expectations. Now that most companies have absorbed the start-up expenses of new capacity, however, and that there are indications of a turn for the better in the price structure, the promise of the last decade may be about to be fulfilled.

Most of the stocks in the industry are high, but the patient, long range investor by careful watching, should be able to pick up the highest quality companies when they reach a sounder buying point. **END**

#### For Profit and Income

(Continued from page 103)

a record \$5.30 a share in 1959, up over 73% from 1958 and nearly 25% from 1957, thus slightly bettering the earlier peak of \$5.24 in 1955 when there was an automobile boom far exceeding anything since seen or in prospect. Profit this year should readily reach the \$5.50-\$6.00 area. Now at 54, off from 1959 high of 69 $\frac{3}{4}$ , the stock is priced at roughly 9 to 10 times earnings. It yields over 4% on a \$2.20 dividend which was raised late in 1959 from \$2.00, and which might be raised again this year, since finances are comfortable. The issue is the best value in the group and should go into new high ground when general market conditions become sufficiently favorable. Of course, nobody can say when that might be. Probably it is neither near nor too distant.

#### Nickel Plate

Reported merger talks between Norfolk & Western and Nickel Plate (New York, Chicago & St. Louis R.R.) lifted the latter stock to a recent new 1959-1960 high of 37 $\frac{1}{4}$ , from which it receded to 35 $\frac{1}{2}$  up to this writing, making yield about 5.6% on a \$2.00 dividend. Rail mergers are "iffy" and take time; and in this case the possible benefits to earnings might be more moderate than dynamic. At 35, yielding about 5.7% on a \$2.00 dividend, Seaboard Air Line is a merger speculation (into Atlantic Coast Line), with major benefits available since the roads are in large degree directly competitive. Off from 1959 high of 40 $\frac{3}{4}$ , the stock probably has more "potential" now than Nickel Plate. A sounder investment than either is Northern Pacific, which is exploring merging Great Northern and two jointly owned subsidiaries. This road has raised earnings (\$3.97 a share in 1959 for a new post war peak) for five consecutive years, dividends also for five straight years. The present rate is \$2.20 and at around 43, off from 1959 high of 57 $\frac{1}{4}$ , the stock yields 5.1%. **END**

## Inside the Market

In recent trading sessions up to this writing stock groups showing better-than-average supply-demand positions are principally; aluminum, electronics, dairy products, food store chains, soft drinks, tobacco and utilities. Among the list of weaker groups, these stand out: air lines, automobiles, coal, coppers, steel, tires, sugar and textiles. **END**

**Correction:** In the article "You Can Rent Anything Today", in our issue of January 30, 1960, it was stated that under a government anti-trust action against Pitney-Bowes, the company must now allow its customers to either rent or buy postage meter machines, at the latter's option, and the company was also forced to license its patents to other manufacturers.

Although it is true that the company agreed to license postage meter patents, the story was in error in stating that the company was required to sell its postage meters.

## Trend of Events

(Continued from page 64)

New York City, where city-wide branching has been permitted and in Chicago where no branches are allowed. A 1956 study authorized by the New York State Bankers Association showed that New York City was served by 729 banking units and branch offices while Chicago was served by 74 unit banks with no branch offices. Using 1950 census figures, New York City had one banking office to serve each 10,825 of its population while Chicago had one banking office for each 48,931 of population. Chicago has a number of "currency exchanges" which the public has been forced to rely upon to cash checks against payment of a fee fixed by the State. New York City, because of its large number of banking offices, finds the existence of such currency exchanges to be less necessary.

If the decade of the 1960's is

to fulfill all of the bright forecasts concerning the levels which will be reached in gross national product and in general business activity, the nation's banks will be called upon to play an important contributing role. It can be argued that the British or Canadian banking systems are better adapted to meet the banking needs of a modern economy than over 14,000 independent banks. This would seem to be true especially when our banks find their growth hampered by overlapping and often contradictory regulatory requirements and statutes. However, our history being what it is, we will probably continue to operate as best we can with modifications of our existing independent banking system. States with archaic restrictive bank laws, however, will be put on notice by New York's action that they will have to modernize their banking laws if they are to keep pace with the times. Failure to give the banks breathing room could cause irreparable harm not only to the banking structure but to the economy which that banking structure supports. **END**

## Book Reviews

### Kiplinger's Family Buying Guide

*How to Live Better on your Income*

Do you ever wonder if you're getting your money's worth when you pay out dollars for a suit, vitamins, doctor's fees, mortgage interest or a car? This book tells you how to get a fair deal on everything from pots and pans to split level houses. Follow the advice in this book and you can raise your over-all purchasing power 10 to 20 per cent.

Kiplinger's Family Buying Guide gives you an expert approach to every buying situation you face. It answers in detail any questions you as a consumer may have—to help you make your dollars work harder for you.

For instance: Buying a house? You'll learn how to evaluate location, neighborhood and exterior. How to "sleuth down" hidden pitfalls of an old house. How to "price" pre-fabs, co-ops, trailers. How to arrange the best mortgage for your interests. How to figure out which kind and how much insurance you need.

Buying a car? Get the complete story on used versus new cars. Learn the truth about tires, auto gadgets and auto costs. How to save on oil, gas and auto supplies.

You'll find dozens of shortcuts for

saving on family necessities — with something left over for the fun-to-have extras. Here is up-to-date spending guidance on appliances, loans, auto insurance, health insurance—detailed clothing tips for such items as men's suits and women's fur coats. Buying the specialized services of doctors, lawyers, architects — stocks, bonds, mutual funds — vitamins, drugs, health aids — college tuition, correspondence courses — vacation trips and leisure time fun—all are here.

For everything you buy or want to buy, Kiplinger's Family Buying Guide supplies the vital market comparisons of products and services to make you a confident, canny buyer.

This book cannot simply be read and put aside. You will find yourself referring to it again and again—whenever you need help in your family spending plans. It is designed to be a permanent addition to your family reference library.

Prentice-Hall, Inc. \$4.95

### Electric Power Regulation in Latin America

By DAVID F. CAVERS  
and JAMES R. NELSON

The economic development of Latin America depends to a great extent on a healthy and expanding electric power industry. For this reason, the World

Bank and the United Nations Economic Commission for Latin America have collaborated in the publication of this book, which was written by two distinguished experts on the basis of a study by the Harvard Law School of the laws, practice, and administrative systems governing the operation of electric power utilities in Latin America. Particular emphasis was placed in the study on the problem of financing the expansion of these utilities.

Professors Cavers and Nelson conclude that the evidence accumulated by the study points to the need to adjust charges for electricity services, whether public or private, so that costs can be fully met and surpluses accumulated from earnings to finance future expansions. This conclusion is strongly endorsed both by the World Bank and by ECLA. These agencies believe that many of the prevailing systems regulating electric power utilities in Latin America are obsolete and are hindrances to the rapid accumulation of capital for expansion which is required by greatly increased power demand in Latin America.

David F. Cavers is Fessenden Professor of Law, Harvard University, and James R. Nelson is Charles E. Merrill Professor of Economics, Amherst College.

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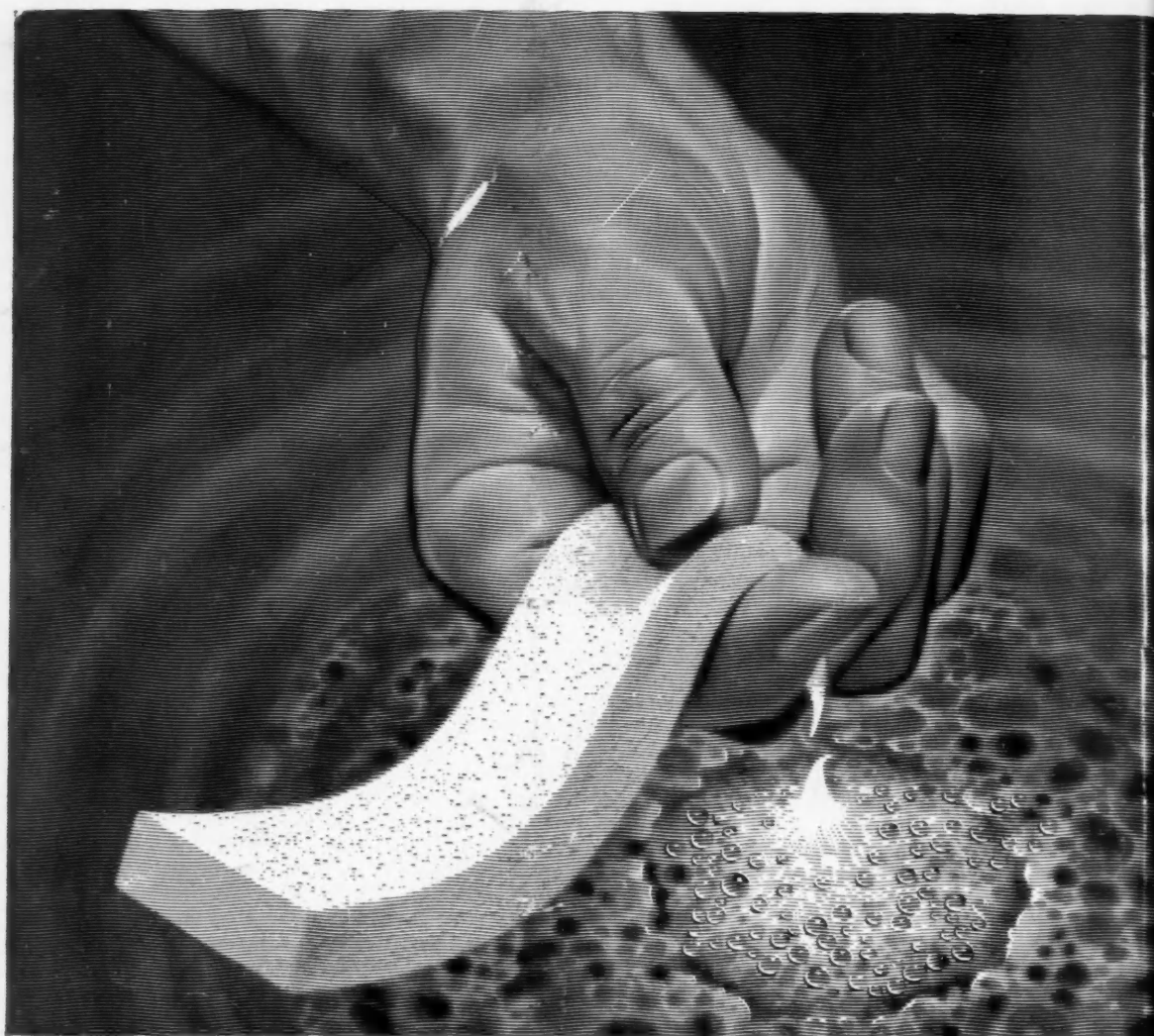
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